

**WARREN COUNTY SCHOOL DISTRICT
WARREN, PENNSYLVANIA**

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2015

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, 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Warren County School District as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 11 and the other required supplementary information, as listed in the table of contents, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2015 on our consideration of Warren County School District's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Warren County School District's internal control over financial reporting and compliance.

Felix and Gloekler, P.C.

Felix and Gloekler, P.C.
Erie, Pennsylvania
December 29, 2015

WARREN COUNTY SCHOOL DISTRICT
Management Discussion and Analysis
For the Year Ended June 30, 2015

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, 2015. 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 2014-2015 include:

Total 2014-2015 General Fund revenues amounted to \$72,538,203, compared to 2013-2014 total revenue of \$70,532,727. This represented a 3.1% increase in revenues.

The General Fund expenses, including transfers, of the District amounted to \$67,428,563 in 2014-2015, compared to total expenses in 2013-2014 of \$66,835,397. This represented a 0.9% increase in expenses.

The General Fund total fund balance at fiscal year ending 2014-2015 was \$18,067,613, which represented a favorable change of \$5,305,970 (41.6%) from the prior year's fund balance of \$12,761,643. Included in the total fund balance is a commitment of \$14,210,543 as shown on page 16. The unassigned fund balance of \$3,857,070 at fiscal year ending June 30, 2015 represented 5.7% of the total expenses in the fiscal year compared to the fund balance at fiscal year ended June 30, 2014, which represented 5.5% of the expenses for that period.

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 2014-2015.

The *Statement of Net Position* 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 Position 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 2014-2015 fiscal year?” The answer is available in the *Statement of Net Position* 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 position and changes in the assets over the course of the 2014-2015 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 Position* 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 Position* provides the perspective of the School District taken as a whole. The School District’s total net position was a negative \$48,705,460 at June 30, 2015, compared to \$33,810,376 for 2014. This decrease is due primarily to the recording of a net pension liability of \$90.2 million, representing the district’s proportionate share of the Public School Employees’ Retirement System (PSERS) liability under GASB 68 reporting requirements.

	2015	2015		2014	2014	
	Governmental	Business-Type		Governmental	Business-Type	
	Activities	Activities	Total	Activities	Activities	Total
Current	\$ 39,373,724	\$ 146,876	\$ 39,520,600	\$ 39,507,402	\$ 85,868	\$ 39,593,270
Capital assets and other assets	81,104,522	146,695	81,251,217	75,824,586	177,736	76,002,322
Total Assets	120,478,246	293,571	120,771,817	115,331,988	263,604	115,595,592
Deferred outflows of resources	5,957,358	98,044	6,055,402	-	-	-
Current and other liabilities	9,036,795	81,687	9,118,482	8,473,319	35,388	8,508,707
Long-term liabilities	160,715,976	1,561,221	162,277,197	73,276,509	-	73,276,509
Total Liabilities	169,752,771	1,642,908	171,395,679	81,749,828	35,388	81,785,216
Deferred inflows of resources	4,065,430	71,570	4,137,000	-	-	-
Net Position						
Net investment						
in capital assets	23,202,961	146,695	23,349,656	24,767,866	177,736	24,945,602
Unrestricted	(70,585,558)	(1,469,558)	(72,055,116)	8,814,294	50,480	8,864,774
Total Net Position	\$ (47,382,597)	\$ (1,322,863)	\$ (48,705,460)	\$ 33,582,160	\$ 228,216	\$ 33,810,376

The following table shows the revenues, expenses and changes in net position for fiscal years ended 2015 and 2014:

	2015	2015		2014	2014	
	Governmental	Business-Type		Governmental	Business-Type	
	Activities	Activities	Total	Activities	Activities	Total
Revenues						
Operating grants and contributions	\$ 46,397,050	\$ 1,344,892	\$ 47,741,942	\$ 44,786,024	\$ 1,276,474	\$ 46,062,498
Charges for services	870,016	601,101	1,471,117	1,267,922	632,726	1,900,648
General revenues						
Property taxes	21,044,195	-	21,044,195	20,773,436	-	20,773,436
Earned income and local services						
taxes	3,894,191	-	3,894,191	2,986,308	-	2,986,308
Other taxes	454,073	-	454,073	340,704	-	340,704
Interest earnings	56,145	-	56,145	121,057	-	121,057
Total Revenues	72,715,670	1,945,993	74,661,663	70,275,451	1,909,200	72,184,651
Expenses						
Instruction	41,912,108	-	41,912,108	40,693,591	-	40,693,591
Pupil personnel	1,398,914	-	1,398,914	1,246,984	-	1,246,984
Instructional student support	3,019,477	-	3,019,477	2,734,330	-	2,734,330
Administrative/business support	4,272,592	-	4,272,592	4,378,581	-	4,378,581
Operation of plant	5,600,789	-	5,600,789	5,501,743	-	5,501,743
Student transportation	5,199,682	-	5,199,682	5,499,508	-	5,499,508
Central services	72,354	-	72,354	111,308	-	111,308
Student activities	221,810	-	221,810	210,522	-	210,522
Business services	756,566	-	756,566	664,196	-	664,196
Other	882,078	-	882,078	814,978	-	814,978
Interest on debt	2,760,252	-	2,760,252	2,603,496	-	2,603,496
Depreciation	1,843,408	-	1,843,408	2,161,515	-	2,161,515
Food services	-	1,987,653	1,987,653	-	1,944,664	1,944,664
Total Expenses	67,940,030	1,987,653	69,927,683	66,620,752	1,944,664	68,565,416
Increase (Dec) In Net Position	4,775,640	(41,660)	4,733,980	3,654,699	(35,464)	3,619,235
Net position, beginning of year as restated	(52,158,237)	(1,281,203)	(53,439,440)	29,927,461	263,680	30,191,141
Net Position, end of year	\$ (47,382,597)	\$ (1,322,863)	\$ (48,705,460)	\$ 33,582,160	\$ 228,216	\$ 33,810,376

Governmental Activities

Governmental activities for 2014-2015 resulted in an increase in net position of \$4,775,640. The increase resulted primarily from an increase in revenue across the board 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 funds 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), 37 percent; State and Federal revenues, 63 percent.

	2014-2015	2013-2014
Local Revenue	\$ 27,091,036 (37%)	\$ 26,689,423 (38%)
State Revenue	\$ 41,423,282 (57%)	\$ 40,169,723 (57%)
Federal & Other	\$ 4,023,885 (6%)	\$ 3,673,581 (5%)
TOTAL	\$ 72,538,203	\$ 70,532,727

General Fund Expenses

The District's program expenses are 64 percent instruction; 34 percent support; and 2 percent non-instructional (including debt payments and transfers).

	2014-2015	2013-2014
Instruction	\$ 39,452,371 (64%)	\$ 38,986,205 (64%)
Support Services	\$ 20,805,593 (34%)	\$ 20,662,889 (34%)
Non-Instruction & Debt	\$ 934,274 (2%)	\$ 937,369 (2%)
TOTAL	\$ 61,192,238	\$ 60,586,463

The 2014-2015 fiscal year again saw little growth in the local economy. 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:

	2014-2015
General Fund	\$ 18,067,613
Capital Projects	\$ 12,600,648
Debt Service	\$ 795,000
Total	\$ 31,463,261

General Fund Budget Highlights

The \$72,538,203 of revenues in the General Fund in 2014-2015 applied against the total General Fund expenditure outlay of \$61,192,238 resulted in a net increase to the fund balance of \$5,305,970. Although the District recognizes a fund balance of \$18,067,613, it also realizes that a liability for certain obligations as shown on page 16 needs to be considered as a commitment of that fund balance.

Comparison of Transfer Out Accounts

	2014-2015	2013-2014
Contribution to Capital Project	\$ 404,537	\$ 480,000
Debt Service	\$ 5,637,870	\$ 5,555,773
TOTALS	\$ 6,042,407	\$ 6,035,773

For 2015, the Athletic Fund is combined with the General Fund.

Capital Assets

At the end of fiscal year 2014-2015, the District had approximately \$81 million invested in land, buildings, equipment and construction-in-progress (\$127 million, less accumulated depreciation of \$46 million).

Debt Administration

The existing bonds payable at June 30, 2015 totaled \$69,215,000. The debt payments for the fiscal year totaled \$6,042,407.

Factors Expected to have an Effect on Future Operations

As this report is being written, the Commonwealth of Pennsylvania has yet to adopt a budget for the 2015-2016 fiscal year. Since the majority of our revenue is derived from state sources as well as federal sources administered by the state, continued delays in passing the budget could have a significant negative impact on our cash flow and affect our ability to meet our financial obligations.

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, 6820 Market Street, Russell, PA 16345; telephone (814) 723-6900.

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WARREN COUNTY SCHOOL DISTRICT

Statement of Net Position

June 30, 2015

	Governmental Activities	Business-Type Activities	Total
Assets			
Current Assets			
Cash and cash equivalents	\$ 19,461,845	\$ 5,413	\$ 19,467,258
Investments	13,222,693	-	13,222,693
Taxes receivable, net	2,751,131	-	2,751,131
Internal balances	201,379	(201,379)	-
Due from other governments	1,977,513	194,758	2,172,271
Other receivables	1,022,439	26,589	1,049,028
Inventories	736,724	-	736,724
Prepaid expenses	-	121,495	121,495
Total Current Assets	<u>39,373,724</u>	<u>146,876</u>	<u>39,520,600</u>
Noncurrent Assets			
Land	498,983	-	498,983
Construction in progress	1,189,871	-	1,189,871
Capital assets, net	<u>79,415,668</u>	<u>146,695</u>	<u>79,562,363</u>
Total Noncurrent Assets	<u>81,104,522</u>	<u>146,695</u>	<u>81,251,217</u>
Total Assets	<u>120,478,246</u>	<u>293,571</u>	<u>120,771,817</u>
Deferred Outflows of Resources			
Deferred outflows - pension	<u>5,957,358</u>	<u>98,044</u>	<u>6,055,402</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 126,435,604</u>	<u>\$ 391,615</u>	<u>\$ 126,827,219</u>
Liabilities			
Current Liabilities			
Accounts payable	\$ 1,701,329	\$ 57,172	\$ 1,758,501
Current portion of long-term debt	2,915,000	-	2,915,000
Accrued salaries and benefits	1,652,845	3,419	1,656,264
Payroll deductions and withholdings	2,320,213	-	2,320,213
Other current liabilities	<u>447,408</u>	<u>21,096</u>	<u>468,504</u>
Total Current Liabilities	<u>9,036,795</u>	<u>81,687</u>	<u>9,118,482</u>
Noncurrent Liabilities			
Bonds payable	66,300,000	-	66,300,000
Other post-employment benefits	5,363,189	-	5,363,189
Long-term portion of compensated absences	370,008	-	370,008
Net pension liability	<u>88,682,779</u>	<u>1,561,221</u>	<u>90,244,000</u>
Total Noncurrent Liabilities	<u>160,715,976</u>	<u>1,561,221</u>	<u>162,277,197</u>
Total Liabilities	<u>169,752,771</u>	<u>1,642,908</u>	<u>171,395,679</u>
Deferred Inflows of Resources			
Deferred inflows - pension	<u>4,065,430</u>	<u>71,570</u>	<u>4,137,000</u>
Net Position			
Net investment in capital assets	23,202,961	146,695	23,349,656
Unrestricted	<u>(70,585,558)</u>	<u>(1,469,558)</u>	<u>(72,055,116)</u>
Total Net Position	<u>(47,382,597)</u>	<u>(1,322,863)</u>	<u>(48,705,460)</u>
Total Liabilities, Deferred Inflows, and Net Position	<u>\$ 126,435,604</u>	<u>\$ 391,615</u>	<u>\$ 126,827,219</u>

The accompanying notes are an integral part of these statements.

WARREN COUNTY SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2015

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>
		<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>
			<u>Contributions</u>	<u>Contributions</u>
<u>Governmental Activities</u>				
Instruction	\$ 41,718,190	\$ 803,172	\$ 41,799,266	\$ -
Pupil personnel	1,398,914	-	135,183	-
Instructional student support	3,019,477	-	294,510	-
Administrative and financial support	4,272,592	66,844	412,652	-
Pupil health	882,078	-	173,424	-
Operation and maintenance of plant services	7,444,197	-	183,892	-
Student transportation	5,199,682	-	3,296,670	-
Central services	72,354	-	14,822	-
Student and community activities	221,810	-	13,399	-
Business services	756,566	-	73,232	-
Interest on debt	2,760,252	-	-	-
Total Governmental Activities	<u>67,746,112</u>	<u>870,016</u>	<u>46,397,050</u>	<u>-</u>
<u>Business-Type Activities</u>				
Food service	1,987,653	601,101	1,150,974	-
Total Business-Type Activities	<u>1,987,653</u>	<u>601,101</u>	<u>1,150,974</u>	<u>-</u>
Total Primary Government	<u>\$ 69,733,765</u>	<u>\$ 1,471,117</u>	<u>\$ 47,548,024</u>	<u>\$ -</u>

General Revenues:

Taxes
Property taxes
Earned income and local services tax
Public utility realty/other taxes
Interest earnings
Transfers
Total General Revenues

Change in Net Position

Net Position, July 1, 2014 as restated

Net Position, June 30, 2015

The accompanying notes are an integral part of these statements.

Governmental Activities	Business- Type Activities	Total
\$ 884,248	\$ -	\$ 884,248
(1,263,731)	-	(1,263,731)
(2,724,967)	-	(2,724,967)
(3,793,096)	-	(3,793,096)
(708,654)	-	(708,654)
(7,260,305)	-	(7,260,305)
(1,903,012)	-	(1,903,012)
(57,532)	-	(57,532)
(208,411)	-	(208,411)
(683,334)	-	(683,334)
(2,760,252)	-	(2,760,252)
(20,479,046)	-	(20,479,046)
-	(235,578)	(235,578)
-	(235,578)	(235,578)
(20,479,046)	(235,578)	(20,714,624)
21,044,195	-	21,044,195
3,894,191	-	3,894,191
454,073	-	454,073
56,145	-	56,145
(193,918)	193,918	-
25,254,686	193,918	25,448,604
4,775,640	(41,660)	4,733,980
(52,158,237)	(1,281,203)	(53,439,440)
\$ (47,382,597)	\$ (1,322,863)	\$ (48,705,460)

WARREN COUNTY SCHOOL DISTRICT

Balance Sheet Governmental Funds June 30, 2015

	General Fund	Capital Projects	Debt Service	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 17,984,461	\$ 1,477,384	\$ -	\$ 19,461,845
Investments	1,119,501	11,308,192	795,000	13,222,693
Taxes receivable, net	2,880,765	-	-	2,880,765
Due from other funds	2,000	-	-	2,000
Due from proprietary fund	201,379	-	-	201,379
Intergovernmental receivables	1,977,513	-	-	1,977,513
Other receivables	1,017,192	5,247	-	1,022,439
Prepaid expenses	736,724	-	-	736,724
Total Assets	\$ 25,919,535	\$ 12,790,823	\$ 795,000	\$ 39,505,358
Liabilities, Deferred Inflows, and Fund Balances				
Liabilities				
Due to other funds	\$ -	\$ 2,000	\$ -	\$ 2,000
Accounts payable	1,513,154	188,175	-	1,701,329
Accrued salaries and benefits	1,652,845	-	-	1,652,845
Payroll deductions and withholdings	2,320,213	-	-	2,320,213
Other current liabilities	46,992	-	-	46,992
Total Liabilities	5,533,204	190,175	-	5,723,379
Deferred Inflows of Resources				
Unavailable revenue - property taxes	2,318,718	-	-	2,318,718
Total Deferred Inflows of Resources	2,318,718	-	-	2,318,718
Fund Balances				
Restricted for debt service	-	-	795,000	795,000
Restricted for capital projects	-	11,123,264	-	11,123,264
Committed to:				
Capital projects	4,100,000	1,477,384	-	5,577,384
Retirement	4,114,002	-	-	4,114,002
Tax and school board contingencies	1,000,000	-	-	1,000,000
Medical expenses	780,256	-	-	780,256
Textbook purchases	900,000	-	-	900,000
Technology	3,070,000	-	-	3,070,000
Building furniture/fixtures	216,285	-	-	216,285
WCC Health Program	30,000	-	-	30,000
Unassigned	3,857,070	-	-	3,857,070
Total Fund Balances	18,067,613	12,600,648	795,000	31,463,261
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 25,919,535	\$ 12,790,823	\$ 795,000	\$ 39,505,358

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 Position
June 30, 2015

Total fund balances - governmental funds	\$ 31,463,261
Amounts reported for governmental activities in the statement of net position 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 \$ 127,502,979, and the accumulated depreciation is \$46,398,457	81,104,522
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.	2,318,718
An estimate of uncollectible real estate taxes receivable is not recorded in the funds.	(129,634)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:	
Deferred outflows of resources related to pensions	5,957,358
Deferred inflows of resources related to pensions	(4,065,430)
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	\$ (69,215,000)
Accrued interest on the bonds	(153,744)
Other post-employment benefits	(5,363,189)
Compensated absences	(616,680)
Net pension liability	(88,682,779)
	<u>(164,031,392)</u>
Total Net Position - Governmental Activities	<u>\$ (47,382,597)</u>

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, 2015

	General Fund	Capital Projects	Debt Service	Total Governmental Funds
Revenues				
Local sources				
Property taxes	\$ 20,945,879	\$ -	\$ -	\$ 20,945,879
Income and other taxes	4,348,264	-	-	4,348,264
Other local sources	1,796,893	12,307	-	1,809,200
State sources	41,423,282	-	-	41,423,282
Federal sources	4,023,885	-	-	4,023,885
Total Revenues	72,538,203	12,307	-	72,550,510
Expenditures				
Instruction	39,452,371	-	-	39,452,371
Support services	20,805,593	-	-	20,805,593
Noninstructional services	934,274	-	-	934,274
Capital outlay	-	7,123,344	-	7,123,344
Agent fees	-	-	1,239	1,239
Debt service (principal and interest)	-	-	4,857,006	4,857,006
Total Expenditures	61,192,238	7,123,344	4,858,245	73,173,827
Excess (Deficiency) of Revenues Over Expenditures	11,345,965	(7,111,037)	(4,858,245)	(623,317)
Other Financing Sources (Uses)				
Interfund transfers out	(6,042,407)	(128,962)	-	(6,171,369)
Interfund transfers in	128,962	404,537	5,637,870	6,171,369
Transfer to proprietary fund	(193,918)	-	-	(193,918)
Sale of fixed assets	2,454	-	-	2,454
Other financing	64,914	(899)	375	64,390
Total Other Financing Sources (Uses)	(6,039,995)	274,676	5,638,245	(127,074)
Net Change in Fund Balances	5,305,970	(6,836,361)	780,000	(750,391)
Fund Balance, July 1, 2014	12,761,643	19,437,009	15,000	32,213,652
Fund Balance, June 30, 2015	\$ 18,067,613	\$ 12,600,648	\$ 795,000	\$ 31,463,261

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 Balances
to the Statement of Activities
For the Year Ended June 30, 2015

Total net change in fund balances - governmental funds		\$	(750,391)
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 and amortization expense	\$	(1,843,408)	
Capital outlays		7,123,344	5,279,936
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.			2,085,000
Governmental Funds report district pension contributions as expenditures; however, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense:			
School district pension contributions		5,957,358	
Cost of benefits earned net of employee contributions (pension expense recognized)		<u>(8,373,765)</u>	(2,416,407)
Amortization of deferred outflows/inflows is not reflected in the fund statements, as they are related to future pension obligations			1,365,953
Other:			
Change in deferred taxes			96,808
Change in reserve for uncollectible taxes			1,508
Change in accrued interest payable			11,754
Change in compensated absences			(17,081)
Change in OPEB liability			<u>(881,440)</u>
Change in Net Position of Governmental Activities		\$	<u><u>4,775,640</u></u>

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, 2015

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Local revenues	\$ 24,501,080	\$ 25,275,079	\$ 27,091,036	\$ 1,815,957
State program revenues	40,618,829	40,635,460	41,423,282	787,822
Federal program revenues	2,489,011	3,757,679	4,023,885	266,206
Total Revenues	67,608,920	69,668,218	72,538,203	2,869,985
Expenditures				
Regular programs	30,416,532	28,999,201	27,148,392	1,850,809
Special programs	9,597,632	10,913,581	10,907,315	6,266
Vocational programs	1,267,288	1,252,222	1,240,842	11,380
Other instructional programs	143,189	218,090	155,822	62,268
Pupil personnel services	1,314,328	1,405,473	1,346,577	58,896
Instructional staff services	3,037,685	3,116,430	2,933,654	182,776
Administrative services	4,463,422	4,452,646	4,110,485	342,161
Pupil health	891,502	891,502	849,317	42,185
Business services	867,878	867,878	729,469	138,409
Operation and maintenance of plant services	5,792,699	5,792,699	5,495,319	297,380
Student transportation services	5,534,726	5,552,163	5,193,122	359,041
Central and other support services	141,069	98,860	69,702	29,158
Media services	79,652	79,652	77,948	1,704
Student activities	220,627	195,681	125,218	70,463
Athletics	770,812	800,814	800,814	-
Community services	17,850	17,850	8,242	9,608
Total Expenditures	64,556,891	64,654,742	61,192,238	3,462,504
Excess (Deficiency) of Revenues Over Expenditures	3,052,029	5,013,476	11,345,965	6,332,489
Other Financing Sources (Uses)				
Debt Service	(4,021,854)	(5,693,616)	(5,637,870)	55,746
Fund transfers	-	(770,812)	(275,575)	495,237
Proprietary fund transfer	-	-	(193,918)	(193,918)
Refund of prior year's receipts	-	-	-	-
Sale of fixed assets	-	-	2,454	2,454
General administration	-	-	-	-
Other financing	-	29,994	64,914	34,920
Budgetary reserve	(450,000)	(270,772)	-	270,772
Total Other Financing Sources (Uses)	(4,471,854)	(6,705,206)	(6,039,995)	665,211
Net Change in Fund Balances	(1,419,825)	(1,691,730)	5,305,970	6,997,700
Fund Balance , July 1, 2014	12,761,643	12,761,643	12,761,643	-
Fund Balance , June 30, 2015	\$ 11,341,818	\$ 11,069,913	\$ 18,067,613	\$ 6,997,700

The accompanying notes are an integral part of these statements.

WARREN COUNTY SCHOOL DISTRICT

Statement of Net Position

Proprietary Fund

June 30, 2015

	<u>Food Service</u>
Assets	
Current Assets	
Cash and cash equivalents	\$ 5,413
Intergovernmental accounts receivable	194,758
Other accounts receivable	26,589
Inventories	-
Prepaid expenses	<u>121,495</u>
Total Current Assets	<u>348,255</u>
Noncurrent Assets	
Machinery and equipment, net	<u>146,695</u>
Total Assets	<u>494,950</u>
Deferred Outflows of Resources	
Deferred outflows - pension	<u>98,044</u>
Total Assets and Deferred Outflows	<u><u>\$ 592,994</u></u>
Liabilities	
Current Liabilities	
Due to other funds	\$ 201,379
Accrued salaries and benefits	3,419
Student deposits	21,095
Accounts payable	<u>57,173</u>
Total Current Liabilities	<u>283,066</u>
Noncurrent Liabilities	
Net pension liability	<u>1,561,221</u>
Total Liabilities	<u>1,844,287</u>
Deferred Inflows of Resources	
Deferred inflows - pension	<u>71,570</u>
Net Position	
Net investment in capital assets	146,695
Unrestricted	<u>(1,469,558)</u>
Total Net Position	<u>(1,322,863)</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u><u>\$ 592,994</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 Position
Proprietary Fund
For the Year Ended June 30, 2015

	<u>Food Service</u>
Operating Revenues:	
Food service revenue	<u>\$ 601,101</u>
Total Operating Revenues	<u>601,101</u>
Operating Expenses:	
Salaries	457,701
Employee benefits	361,736
Other purchased services	1,114,180
Depreciation	41,660
Other operating expenditures	<u>12,376</u>
Total Operating Expenses	<u>1,987,653</u>
Operating Income (Loss)	<u>(1,386,552)</u>
Nonoperating Revenues (Expenses)	
State sources	61,821
Federal sources	<u>1,089,153</u>
Total Nonoperating Revenues (Expenses)	<u>1,150,974</u>
Change in Net Position before Transfers	(235,578)
Transfers in	<u>193,918</u>
Change in Net Position	(41,660)
Net Position, July 1, 2014, as restated	<u>(1,281,203)</u>
Net Position, June 30, 2015	<u><u>\$ (1,322,863)</u></u>

The accompanying notes are an integral part of these statements.

WARREN COUNTY SCHOOL DISTRICT

Statement of Cash Flows

Proprietary Fund Type

For the Year Ended June 30, 2015

	<u>Food Service</u>
Cash Flows From Operating Activities	
Cash received from users	\$ 580,131
Cash payments to employees for services	(818,741)
Cash payments to suppliers for goods and services	<u>(1,101,012)</u>
Net Cash Provided By (Used For) Operating Activities	<u>(1,339,622)</u>
Cash Flows From Non-Capital Financing Activities	
State sources	61,884
Federal sources	1,081,559
Transfers in	<u>175,446</u>
Net Cash Provided By (Used For) Non-Capital Financing Activities	<u>1,318,889</u>
Cash Flows From Capital and Related Financing Activities	
Equipment purchase	<u>(10,620)</u>
Net Cash Provided By (Used For) Capital and Related Financing Activities	<u>(10,620)</u>
Net Increase in Cash and Cash Equivalents	(31,353)
Cash and Cash Equivalents at Beginning of Year	<u>36,766</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 5,413</u></u>
Reconciliation of Operating Income to Net Cash (Used For) Operating Activities	
Operating income (loss)	<u>\$ (1,386,552)</u>
Depreciation	41,660
(Increase) decrease in accounts receivable	(20,970)
Increase (decrease) in other liabilities	697
Increase (decrease) in student deposits	(1)
(Increase) in other current assets	(20,059)
Increase (decrease) in accounts payable	<u>45,603</u>
Total Adjustments	<u>46,930</u>
Cash Provided By (Used For) Operations	<u><u>\$ (1,339,622)</u></u>

The accompanying notes are an integral part of these statements.

WARREN COUNTY SCHOOL DISTRICT

Statement of Net Position

Fiduciary Funds

June 30, 2015

	Agency Funds			
	Student	Earned Income		
	Activities	Tax Office	Trust Funds	Total
Assets				
Cash and cash equivalents	\$ 213,024	\$ 385,380	\$ 31,740	\$ 630,144
Investments	-	-	298,162	298,162
Total Assets	<u>\$ 213,024</u>	<u>\$ 385,380</u>	<u>\$ 329,902</u>	<u>\$ 928,306</u>
Liabilities and Net Position				
Liabilities				
Accounts payable	<u>\$ 213,024</u>	<u>\$ 385,380</u>	<u>\$ -</u>	<u>\$ 598,404</u>
Total Liabilities	<u>213,024</u>	<u>385,380</u>	<u>-</u>	<u>598,404</u>
Net Position				
Restricted by trust agreements	<u>-</u>	<u>-</u>	<u>329,902</u>	<u>329,902</u>
Total Net Position	<u>-</u>	<u>-</u>	<u>329,902</u>	<u>329,902</u>
Total Liabilities and Net Position	<u>\$ 213,024</u>	<u>\$ 385,380</u>	<u>\$ 329,902</u>	<u>\$ 928,306</u>

The accompanying notes are an integral part of these statements.

WARREN COUNTY SCHOOL DISTRICT

Statement of Changes in Net Position

Fiduciary Funds

For the Year Ended June 30, 2015

	<u>Trust Funds</u>
Additions	
Gifts and contributions	\$ 6,436
Net investment income	6,377
Earnings/(loss) on investments	<u>147</u>
	<u>12,960</u>
Deductions	
Scholarships/withdrawals	<u>(9,390)</u>
Change in Net Position	3,570
Net Position, July 1, 2014	<u>326,332</u>
Net Position, June 30, 2015	<u><u>\$ 329,902</u></u>

The accompanying notes are an integral part of these statements.

WARREN COUNTY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2015

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.

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 District 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 Position 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 und operating statements present increases (revenues) and decreases (expenses) in net total position.

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 unavailable revenue on its 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 unavailable revenue. In subsequent periods, the liability for unavailable revenue is removed from the 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 \$21,511,682 on July 1, 2014 based on a gross taxable valuation of \$452,993,696 at 51.9658 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. 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 Position, 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.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. 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 Position, except for amounts due between governmental and business-type activities, which are presented as internal balances.

L. 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 \$492,569 for unused sick pay and \$124,111 for accumulated vacation pay.

M. 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. 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.

O. 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.

P. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government only has one item that qualifies for reporting in this category. It is related to pension contributions subsequent to the measurement date (See Note 9 for further information).

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The other type is related to the pensions (See Note 9 for further information).

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Net Position and Fund Balance

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned and unassigned fund balance in the government fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The School Board has by resolution authorized the business administrator to assign fund balance. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, an additional action is essential to either remove or revise a commitment.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Pronouncements Issued

The School District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* – an amendment of GASB Statement No. 27 and GASB Statement No. 71, *Pension Transition for Contributions Subsequent to the Measurement Date* – an amendment of GASB Statement No. 68 during the June 30, 2015 fiscal year. The primary objective of the statements is to improve accounting and financial reporting for pensions.

The implementation of these statements results in recording of net pension liability, deferred outflows – pensions and deferred inflows – pensions on the Governmental Activities, Business-type Activities, and Food Service Fund. See Note 9 for further information.

S. Future Pronouncements

The School District will adopt GASB 72, *Fair Value Measurement and Application*, in the June 30, 2016 fiscal year. The objective of the statement is to enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value and enhance disclosures to provide information about the impact of fair value measurements.

T. Program Revenue

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead of *general revenues*.

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, 2015, the bank balance of the District's deposits that are exposed to custodial credit risk is \$20,143,677 and their carrying amount is \$19,467,258. 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	\$ 250,000
Uninsured and collateralized held by the pledging bank's Trust Department not in the District's name	20,143,677
Plus: deposits in transit	-
Less: outstanding checks	(932,904)
Ending amount of cash in banks	
Plus: petty cash	<u>6,485</u>
Total cash per financial statements	<u>\$ 19,467,258</u>

B. Investments

As of June 30, 2015, the District had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
PA Local Gov't Investment Trust	N/A	<u>\$13,222,693</u>
		<u>\$13,222,693</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.

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

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, 2015, 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, 2015:

	Government- Wide Statements	Fund Statements
Delinquent real estate taxes	\$ 2,880,765	\$2,880,765
Allowance for doubtful accounts	(129,634)	-
	<u>\$2,751,131</u>	<u>\$2,880,765</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, \$2,318,718 of the delinquent real estate taxes deemed not available as of June 30, 2015 has been recorded as unavailable 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	\$ 1,365,961	\$ 184,462	\$ 1,550,423
State	611,552	10,296	621,848
	<u>\$ 1,977,513</u>	<u>\$ 194,758</u>	<u>\$ 2,172,271</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund receivables and payables on the fund statements at June 30, 2015 consist of the following:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 203,379	\$ -
Capital Projects Fund	-	2,000
Food Service Fund	-	201,379
	<u>\$ 203,379</u>	<u>\$ 203,279</u>

The outstanding balance between funds results mainly from the time lag between the date that interfund goods and services are provided or reimbursable expenditures occur and payments between funds are made.

Interfund transfers on the fund statements at June 30, 2015 consist of the following:

	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$ -	\$ 6,107,363
Proprietary Fund	193,918	
Capital Projects Fund	275,575	-
Debt Service Fund	5,637,870	-
	<u>\$ 6,107,363</u>	<u>\$ 6,107,363</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 Projects Fund were made to fund certain repairs and maintenance of the District's buildings and facilities. The transfers from the General Fund to the Proprietary Fund was to subsidize the Food Service Fund.

NOTE 6 - CAPITAL ASSETS

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

	June 30, 2014	Additions	Adjustments/ Disposals	June 30, 2015
Governmental Activities				
Capital assets not depreciated:				
Construction in progress	\$ 41,219,051	\$ 7,123,344	\$ (47,152,524)	\$ 1,189,871
Land	498,983	-	-	498,983
Total Capital Assets not Depreciated	<u>41,718,034</u>	<u>7,123,344</u>	<u>(47,152,524)</u>	<u>1,688,854</u>
Capital assets depreciated:				
Buildings and improvements	66,442,943	-	47,152,524	113,595,467
Furniture and equipment	12,218,658	-	-	12,218,658
Total Assets Depreciated	<u>78,661,601</u>	<u>-</u>	<u>47,152,524</u>	<u>125,814,125</u>
Less accumulated depreciation				
Buildings and improvements	(34,662,347)	(1,327,429)	-	(35,989,776)
Furniture and equipment	(9,892,702)	(515,979)	-	(10,408,681)
Total Accumulated Depreciation	<u>(44,555,049)</u>	<u>(1,843,408)</u>	<u>-</u>	<u>(46,398,457)</u>
Total Capital Assets Being Depreciated, Net	<u>34,106,552</u>	<u>(1,843,408)</u>	<u>47,152,524</u>	<u>79,415,668</u>
Total Capital Assets	<u>\$ 75,824,586</u>	<u>\$ 5,279,936</u>	<u>\$ -</u>	<u>\$ 81,104,522</u>
Business-Type Activities				
Capital assets being depreciated:				
Equipment	\$ 947,625	\$ 10,619	\$ -	\$ 958,244
Less accumulated depreciation	(769,889)	(41,660)	-	(811,549)
Total Capital Assets Being Depreciated, Net	<u>\$ 177,736</u>	<u>\$ (31,041)</u>	<u>\$ -</u>	<u>\$ 146,695</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
Support Services:	
Operation and Maintenance	<u>\$ 1,843,408</u>
Business-type Activities:	
Food Service	<u>\$ 41,660</u>

NOTE 7 - OTHER CURRENT LIABILITIES

Other current liabilities on the Statement of Net Position consist of the following:

Accrued interest payable	\$ 153,744
Retirees' prepaid health insurance	46,992
Current portion of compensated absences	<u>246,672</u>
	<u>\$ 447,408</u>

NOTE 8 - NONCURRENT LIABILITIES

A. General Obligation Bonds

The General Obligation Bonds consist of the following as of June 30, 2015:

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 2013

The series of 2013 bonds were issued on February 21, 2013 in the amount of \$9,700,000. The bonds are stated to mature on November 15, 2018 and November 15, 2024 and are subject to redemption prior to maturity as required by the resolution. The bonds were issued to fund the current construction and renovation projects through the District. They bear interest at rates of 1.5% to 3.05%.

Series A of 2013

The District issued General Obligation Bonds, Series A of 2013. The Bonds were issued to refund the remaining outstanding bonds of the 2008 Series. The Bonds were issued on September 5, 2013 in the amount of \$3,295,000. The bonds mature serially at various amounts through September 1, 2017 and bear interest ranging from 2% to 3%. The refunding of the 2008 Bonds resulted in an economic gain of \$65,000 and reduced future debt service payments by \$121,927.

Series of 2014

The series of 2014 bonds were issued on January 9, 2014 in the amount of \$9,980,000. The bonds are stated to mature on May 15, 2034. The bonds were issued to fund the current construction and renovation projects through the District. The bonds bear interest at rates from 1.8% to 4.5%.

NOTE 8 - NONCURRENT LIABILITIES (CONTINUED)

B. Qualified Zone Academy Bond (QZAB)

Series D of 2011

The District issued a QZAB Bond through the Pennsylvania Department of Education in the amount \$16,200,000 in the prior fiscal year. The Bond was issued to finance the ongoing renovation project taking place at Beatty Warren Middle School. One hundred percent of the available project proceeds must be used for renovation, repair or rehabilitation of existing public school facilities and must be spent within three years. Interest is at 5.138%.

Series of 2012

The District issued a QZAB Bond through the Pennsylvania Department of Education in the amount of \$23,180,000 in the current fiscal year. The Bond was issued to finance the ongoing renovation projects district-wide. One hundred percent of the available project proceeds must be used for renovation, repair or rehabilitation of existing public school facilities. Interest is at 4.185%.

Under the QZAB program, substantially all interest expense is reimbursed by the federal government.

The changes in noncurrent liabilities for the year ended June 30, 2015 consist of the following:

	Balance at June 30, 2014	Increases	Decreases	Balance at June 30, 2015	Due in One Year
QZAB Bond Series of					
2011	\$ 16,200,000	\$ -	\$ -	\$ 16,200,000	\$ 1,010,000
2012	23,180,000	-	-	23,180,000	40,000
General Obligation Bonds, Series of					
2010	8,945,000	-	(1,270,000)	7,675,000	1,045,000
2013	9,700,000	-	(5,000)	9,695,000	5,000
2013A	3,295,000	-	(810,000)	2,485,000	810,000
2014	9,980,000	-	-	9,980,000	5,000
	<u>71,300,000</u>	<u>-</u>	<u>(2,085,000)</u>	<u>69,215,000</u>	<u>2,915,000</u>
Compensated Absences					
Sick pay	487,543	5,026	-	492,569	197,028
Vacation Pay	112,056	12,055	-	124,111	49,644
	<u>599,599</u>	<u>17,081</u>	<u>-</u>	<u>616,680</u>	<u>246,672</u>
	<u>71,899,599</u>	<u>\$ 17,081</u>	<u>\$ (2,085,000)</u>	<u>69,831,680</u>	<u>\$ 3,161,672</u>
Less: Current Portion	<u>(3,129,840)</u>			<u>(3,161,672)</u>	
	<u>\$ 68,769,759</u>			<u>\$ 66,670,008</u>	

NOTE 8 - NONCURRENT LIABILITIES (CONTINUED)

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

<u>June 30,</u>	<u>Sinking Fund</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 1,050,000	\$ 1,865,000	\$ 2,737,540	\$ 5,652,540
2017	1,060,000	1,910,000	2,695,700	5,665,700
2018	1,085,000	1,955,000	2,648,026	5,688,026
2019	2,035,000	1,130,000	2,610,177	5,775,177
2020	2,645,000	645,000	2,588,355	5,878,355
2021-2025	14,980,000	2,820,000	12,660,138	30,460,138
2026-2030	11,310,000	8,480,000	16,924,473	36,714,473
2031-2034	5,215,000	11,030,000	8,774,306	25,019,306
	<u>\$ 39,380,000</u>	<u>\$29,835,000</u>	<u>\$51,638,715</u>	<u>\$120,853,715</u>

NOTE 9 - RETIREMENT PLAN

Summary of Significant Accounting Policies

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Public School Employees' Retirement System (PSERS) and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan Description

PSERS is a governmental cost-sharing multiple-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the System include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. PSERS issues a publicly available financial report that can be obtained at www.psers.state.pa.us.

NOTE 9 - RETIREMENT PLAN (CONTINUED)

Benefits Provided

PSERS provides retirement, disability and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of credited service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon membership class of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

Death benefits are payable upon the death of an active member who has reached age 62 with at least one year of credited service (age 65 with at least three years of credited service for Class T-E and Class T-F members) or who has at least five years of credited service (ten years for Class T-E and Class T-F members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

Contributions

Member Contributions

Active members who joined the System prior to July 22, 1983 contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation.

Members who joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation.

Members who joined the System after June 30, 2001 and before July 1, 2011, contribute at 7.50% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

NOTE 9 - RETIREMENT PLAN (CONTINUED)

Members who joined the System after June 30, 2011 automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E are effected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%

Employer Contributions

The School District's contractually required contribution rate for fiscal year ended June 30, 2015 was 20.50% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the School District were \$5,929,503 for the year ended June 30, 2015.

Pensions Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the School District reported a liability of \$90,244,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2013 to June 30, 2014. The School District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2014, the School District's proportion was .2280%, which was an increase of .0028% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the School District recognized pension expense of \$8,373,765. At June 30, 2015, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual investment earnings	\$ -	\$ 6,451,000
(Increase)/Decrease in school district's proportion of covered payroll	-	(924,000)
Proportionate share of deferred inflows	-	(1,390,000)
Contributions subsequent to the measurement	6,055,402	-
Balance at June 30, 2015	<u>\$ 6,055,402</u>	<u>\$ 4,137,000</u>

NOTE 9 - RETIREMENT PLAN (CONTINUED)

\$6,055,402 reported as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2015. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2016	\$ (1,390,000)
2017	(1,390,000)
2018	(1,390,000)
2019	33,000
Total	<u>\$ (4,137,000)</u>

Actuarial Assumptions

The total pension liability as of June 30, 2014 was determined by rolling forward the System's total pension liability as of the June 30, 2013 actuarial valuation to June 30, 2014 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal – level % of pay
- Investment return – 7.50%, includes inflation at 3.00%
- Salary increases – Effective average of 5.50%, which reflects an allowance for inflation of 3.00%, real wage growth of 1%, and merit or seniority increases of 1.50%
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females

The actuarial assumptions used in the June 30, 2013 valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the Board at its March 11, 2011 Board meeting, and were effective beginning with the June 30, 2011 actuarial valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The pension plan's policy in regard to the allocation of invested plan assets is established and may be amended by the Board. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension.

NOTE 9 - RETIREMENT PLAN (CONTINUED)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public markets global equity	19.0%	5.0%
Private markets (equity)	21.0%	6.5%
Private real estate	13.0%	4.7%
Global fixed income	8.0%	2.0%
U.S. long treasuries	3.0%	1.4%
TIPS	12.0%	1.2%
High yield bonds	6.0%	1.7%
Cash	3.0%	0.9%
Absolute return	10.0%	4.8%
Risk parity	5.0%	3.9%
MLP's/Infrastructure	3.0%	5.3%
Commodities	6.0%	3.3%
Financing (LIBOR)	-9.0%	1.1%
	100%	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2014.

Discount rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate

The following presents the net pension liability, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	Net Pension Liability	Liability	Net Pension Liability
	1% Decrease - 6.5%	Current Discount Rate - 7.5%	1% Increase - 8.5%
District's proportionate share of the net pension liability	\$ 112,567,000	\$ 90,244,000	\$ 71,186,000

NOTE 9 - RETIREMENT PLAN (CONTINUED)

Pension plan fiduciary net position

Detailed information about PSERS' fiduciary net position is available in PSERS Comprehensive Annual Financial Report which can be found on the System's website at www.psers.state.pa.us.

NOTE 10 – OTHER 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-employer 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, 2015, 110 retired employees are covered under the Plan. The School District's expenses for benefits were \$1,134,631 in the year ended June 30, 2015.

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.

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.

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

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)	\$ 2,077,153
Interest on net OPEB obligation	167,690
Adjustment to ARC	(228,772)
Annual OPEB cost	<u>2,016,071</u>
Contribution made	<u>(1,134,631)</u>
Increase in net OPEB obligation	881,440
Net OPEB obligation - beginning of year	<u>4,481,749</u>
Net OPEB obligation - end of year	<u>\$ 5,363,189</u>

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

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2015	\$ 2,016,071	56.3%	\$ 5,363,189
June 30, 2014	1,857,193	59.3%	4,481,749
June 30, 2013	1,857,193	74.4%	3,726,442
June 30, 2012	1,864,705	75.4%	3,250,520
June 30, 2011	2,213,923	60.2%	2,792,223

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 below, presents 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 – OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

The ARC for the current year was computed as of July 1, 2014 using the following actuarial assumptions: (1) actuarial cost method - entry age normal; (2) interest rate 4.5%; (3) retiree contributions to increase at the same rate as the Health Care cost trend rate; (4) the Health Care cost trend rate is 3% in 2015 and 5% thereafter; (5) amortization is based on level dollar, thirty year open period.

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 no accrual for such claims has been made.

NOTE 13 - EVALUATION OF SUBSEQUENT EVENTS

The School District has evaluated subsequent events through December 29, 2015, the date which the financial statements were available to be issued. On August 18, 2015, the School District approved the issuance of Federally Taxable Qualified Zone Academy General Obligation Bonds, Series of 2015 in the amount of \$8,449,000 for the repair and renovation of schools.

NOTE 14 – RESTATEMENT OF NET POSITION

Due to the implementation of GASB No. 68 and 71, beginning net position was restated to reflect the following:

	Governmental Activities	Business-Type Activities	Food Service Fund
Beginning balance	\$ 33,582,160	\$ 228,216	\$ 228,216
Restatement due to GASB 68 and 71:			
Net pension liability	(90,593,148)	(1,594,852)	(1,594,852)
Deferred Outflows - Pension	4,852,751	85,433	85,433
Beginning balance, as restated	<u>\$ (52,158,237)</u>	<u>\$ (1,281,203)</u>	<u>\$ (1,281,203)</u>

Required Supplemental Information

WARREN COUNTY SCHOOL DISTRICT
Post – Employment Benefits
Other Than Pension Benefits
Schedule of Funding Progress

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

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL)- (b)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL) (b)-(a)</u>	<u>Funded Ratio (a)/(b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)</u>
July 1, 2014	N/A	\$ 20,955,727	\$20,955,727	0.00%	\$ 25,900,866	
July 1, 2012	N/A	19,070,028	19,070,028	0.00%	25,948,356	73%
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

WARREN COUNTY SCHOOL DISTRICT
Schedules of Required Supplementary Information
Schedule of the School District's Proportionate Share
of the Net Pension Liability
PSERS

	<u>2014</u>	<u>2013</u>
School District's proportion of the net pension liability (asset)	0.2280%	0.2252%
School District's proportionate share of the net pension liability (asset)	\$ 90,244,000	\$ 92,188,000
School District's covered employee payroll	\$ 29,090,383	\$ 28,900,866
School District's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	310%	319%
Plan fiduciary net position as a percentage of the total pension liability	57%	54%

WARREN COUNTY SCHOOL DISTRICT
Schedules of Required Supplementary Information
Schedule of School District's Contributions
PSERS

	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 6,055,402	\$ 4,938,184
Contributions in relation to the contractually required contribution	<u>6,055,402</u>	<u>4,938,184</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
School District's covered employee payroll	\$ 28,003,157	\$ 29,090,383
Contributions as a percentage of covered employee payroll	21.62%	16.98%

WARREN COUNTY SCHOOL DISTRICT
Notes to Required Supplementary Information
June 30, 2015

There were no changes in benefit terms or actuarial assumptions used as this is the first year of recognition in the financial statements.

**Independent Auditors' 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**

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

We have audited, in accordance with the 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, the 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, 2015, and the related notes to the financial statements, which collectively comprise the Warren County School District's basic financial statements and have issued our report, thereon, dated December 29, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Warren County School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Warren County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Warren County School District's internal control.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses, or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Warren County School District's financial statements are free from 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Felix and Gloekler, P.C.

Felix and Gloekler, P.C.
Erie, Pennsylvania

December 29, 2015