

**FINANCIAL STATEMENTS AND REPORTS OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
WARREN COUNTY SCHOOL DISTRICT**

June 30, 2005

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Transmittal Letter

Members of the School Board
Warren County School District

We have performed the Single Audit of the Warren County School District, Warren, Pennsylvania, for the year ended June 30, 2005, and have enclosed the Single Audit reporting package.

The Single Audit was done to fulfill the requirements of OMB Circular A-133 and includes the following:

1. an audit of the financial statements and our opinion thereon, including our report on the schedule of expenditures of federal awards;
2. a report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with *Government Auditing Standards*;
3. a report on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133;

Root, Spitznas and Smiley, Inc.

October 14, 2005

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WARREN COUNTY SCHOOL DISTRICT

Management Discussion and Analysis

For the Year Ended June 30, 2005

Required Supplementary Information

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, 2005. 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 2004-05 include:

Total 2004-2005 general fund revenues amounted to \$59,271,025 compared to 2003-04 total revenue of \$55,868,822. This represented a 6.1% increase in revenues.

The general fund expenses, including transfers, of the District amounted to \$57,791,298 in 2004-05 compared to total expenses in 2003-04 of \$55,561,373. This represented a 4.0% increase in expenses.

The General Fund Total Fund Balance at fiscal year ending 2004-05 was \$5,383,382, which represented a favorable change of \$1,479,727 from the prior year's fund balance of \$3,903,655. Included in the Total Fund Balance is a designation of \$1,247,871 for 2005-06 operations. The ***Unreserved-Undesignated Fund Balance of \$4,135,511*** at fiscal year ending June 30, 2005 represented 7.2% of the total expenses in the fiscal year compared to the fund balance at fiscal year ended June 30, 2004, which represented 7.0% of the expenses for that period. Although the 2004-05 fiscal budget projected the use of approximately \$1.6 million of the beginning fund balance, a resultant increase in investment earnings, grant revenue and unanticipated PLANCON reimbursement rates for the period, along with holding the line on a number of expenditure items, resulted in the \$1,479,727 increase to the beginning fund balance. The projected use of fund balance in the 2003-04 year was budgeted at approximately \$1.5 million.

PLANCON project reimbursement revenue at the State level and the medical assistance reimbursement revenue (ACCESS) at the Federal level accounted for the major increases of revenue over projected for 2004-05.

Again, as in the recent past, expenditures fell below original projections in a number of areas. Because of several grants, a number of contingent staff positions and professional development exercises were funded outside the regular general fund budget. Additionally, ratification of the professional staff contract resulted in less than anticipated expenses.

WARREN COUNTY SCHOOL DISTRICT

Management Discussion and Analysis

For the Year Ended June 30, 2005

Required Supplementary Information

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 2004-05.

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

REPORTING THE SCHOOL DISTRICT AS A WHOLE:

Government-Wide Financial Statements

Statement of Net Assets and the *Statement of Activities*

This document contains all the funds used by the District to provide programs and activities and attempts to answer the question, "How did we do financially during the 2004-05 fiscal year?" The answer is available in the *Statement of Net Assets* and the *Statement of Activities*. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector organizations. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or disbursed.

These two statements report the District's net assets and changes in those assets over the course of the 2004-05 fiscal year. The reports will show whether the District as a whole has seen an increase or decrease in its financial position. The causes for this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, student enrollment, facility conditions, required educational programs and other factors.

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

WARREN COUNTY SCHOOL DISTRICT

Management Discussion and Analysis

For the Year Ended June 30, 2005

Required Supplementary Information

- **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 report as business activities.

Governmental Activities

Governmental activities for 2004-05 resulted in an **increase in net assets of \$2,705,611**. The increase resulted primarily from the increase of one mill of real estate taxes in 2004-05 compared to the 2003-04 fiscal year, as well as the increases in the State and Federal subsidies and grants. The cash flow of the district benefited from a more secure fund balance and increased interest earnings rates.

	2004-05	2003-04
Property Taxes	\$23,206,945	\$22,764,091
Grants, subsidies, other	\$21,350,021	\$21,105,846
Investment earnings	\$181,191	\$63,023
Miscellaneous income	(\$79,287)	\$152,722
Transfers between Govt's	(\$5,584)	\$0
Total	\$44,653,286	\$44,085,682

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. In 2004-05 the general fund transferred \$5,584 to the food service fund.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS:

The analysis of the District's major funds begins on page 11. 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.

WARREN COUNTY SCHOOL DISTRICT

Management Discussion and Analysis

For the Year Ended June 30, 2005

Required Supplementary Information

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

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

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

General Fund Revenue

The District's revenues continue to reflect a similar basic breakdown: local (taxes and other), 39 percent; State and Federal revenues, 61 percent.

	2004-05	2003-04
Local Revenue	\$22,981,051 (39%)	\$22,476,364 (41%)
State Revenue	\$32,618,681 (55%)	\$29,964,497 (53%)
Federal & Other	\$ 3,671,293 (6%)	\$ 3,427,961 (6%)
TOTAL	\$59,271,025	\$55,868,822

General Fund Expenses

The District's program expenses are 60 percent instruction; 35 percent support; and 5 percent non-instructional (including debt payments).

	2004-05	2003-04
Instruction	\$33,746,689 (58%)	\$32,965,310 (59%)
Support Services	\$20,062,850 (35%)	\$19,270,452 (35%)
Non-Instruction & Debt	\$ 2,612,475 (7%)	\$ 3,325,611 (6%)
TOTAL	\$57,791,298	\$55,561,373

WARREN COUNTY SCHOOL DISTRICT

Management Discussion and Analysis

For the Year Ended June 30, 2005

Required Supplementary Information

The 2004-05 fiscal year again saw little growth in the local economy. The numbers of appeals and eventual granting of decreased real estate assessments continue to have a significant impact on the local real estate tax base. Consequently, the District's reliance on State and federal grants becomes more and more evident in an effort to meet program needs in order to avoid further financial hardship to the local taxpayer.

School District's Funds

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

	2004-05
General Fund	\$5,383,382
Capital Reserve	\$ 978,070
Capital Projects	\$1,895,216
Debt Service	\$ 500
Total	\$8,257,168

General Fund Budget Highlights

The \$59,271,025 of revenues in the general fund in 2004-05 applied against the total general fund expenditure outlay of \$57,791,298 resulted in a net increase to the fund balance of \$1,479,727. Although the District recognizes a fund balance of \$5,383,382, it also realizes that post-retirement benefits accounts for over \$4,000,000 and needs to be considered as a designation of that fund balance and that \$1,247,871 is included to fund 2005-06 operating expenses.

Comparison of Transfer Out Accounts

	2004-05	2003-04
Contribution to Athletics	\$ 783,296	\$ 850,450
Contribution to Food Svc	\$ 5,584	\$ 0
Contribution/Capital Resrv	\$ 600,000	\$ 350,000
Debt Service Payments	\$2,343,390	\$1,877,175
TOTALS	\$3,732,270	\$3,077,625

Capital Asset and Debt Administration

At the end of fiscal year 2004-05, the District had \$42.9 million invested in land, buildings, equipment and construction-in-process (\$79.2 million, less accumulated depreciation of \$36.3 million).

The new Warren Area Elementary Center project was over 90% complete and will be ready for students at the beginning of the 2005-06 school year.

WARREN COUNTY SCHOOL DISTRICT

Management Discussion and Analysis

For the Year Ended June 30, 2005

Required Supplementary Information

Debt Administration

The existing bonds payable at June 30, 2005, totaled \$33,575,000. The debt payments for the fiscal year totaled \$2,343,390.

At June 30, 2005, the District's non-electoral limit for debt (225% of borrowing base) was \$126.1 million.

Factors Expected to have an Effect on Future Operations

The stagnant status of the local real estate assessments, coupled with continued appeals from local businesses and industries, concerns the District as current operational expenses continue to rise without any normal inflationary increases in revenues. The impact of the Act 72 legislation regarding gambling revenues will also have to be dealt with as the District moves forward. With the continued projections for decreases in the District student enrollment, the challenge to reduce operational costs while maintaining the expected high levels of educational programming becomes a true challenge to the District Board and administration.

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Independent Auditors' Report

Members of the School Board
Warren County School District

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregating remaining fund information of the Warren County School District, Warren, Pennsylvania, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Warren County School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Warren County School District, Warren, Pennsylvania, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2005, on our consideration of the Warren County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters.

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 1 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

Root, Spitznagel and Smiley, Inc.

October 14, 2005

FINANCIAL STATEMENTS

Warren County School District
Statement of Net Assets
June 30, 2005

	Governmental Activities	Business-Type Activities	Total
Assets			
Current Assets			
0100 Cash and cash equivalents	\$ 9,984,182	\$ 99,220	\$ 10,083,402
0110 Investments	341,169	-	341,169
0120 Taxes receivable (net)	2,984,437	-	2,984,437
0133 Internal balances	159,321	-	159,321
0141 Due from other governments	706,073	26,831	732,904
0146 Due from primary government	-	-	-
0147 Due from component units	-	-	-
0150 Other receivables	86,424	6,499	92,923
0170 Inventories	-	31,840	31,840
0180 Prepaid expenses	634,028	115,745	749,773
0190 Other current assets	125,685	-	125,685
XXXX Total current assets	15,021,319	280,135	15,301,454
Noncurrent Assets			
0108 Restricted cash and cash equivalents	-	-	-
0260 Long-term prepayments	-	-	-
0210 Land and site improvements (net)	807,970	-	807,970
0220 Building and building improvements (net)	14,214,344	-	14,214,344
0230 Machinery and equipment (net)	7,078,778	189,510	7,268,288
0250 Construction in progress	20,758,150	-	20,758,150
0280 Infrastructure assets (net)	-	-	-
0290 Other long-term receivables	-	-	-
XXXX Total noncurrent assets	42,859,242	189,510	43,048,752
XXXX Total assets	\$ 57,880,561	\$ 469,645	\$ 58,350,206
Liabilities			
Current Liabilities			
0403 Internal balances	\$ -	\$ 159,321	\$ 159,321
0411 Due to other governments	-	-	-
0412 Due to primary government	-	-	-
0413 Due to component units	-	-	-
0420 Accounts payable	1,663,826	369	1,664,195
0430 Contracts payable	-	-	-
0440 Current portion of long-term debt	2,065,000	-	2,065,000
0450 Short-term payables	-	-	-
0461 Accrued salaries and benefits	2,340,918	-	2,340,918
0462 Payroll deductions and withholdings	8,606	-	8,606
0470 Advances from other funds	-	-	-
0480 Deferred revenues	17	-	17
0490 Other current liabilities	828,982	-	828,982
XXXX Total current liabilities	6,907,349	159,690	7,067,039
Noncurrent Liabilities			
0510 Bonds payable	31,510,000	-	31,510,000
0520 Extended term financing agreements	-	-	-
0530 Lease purchase obligations	-	-	-
0540 Long-term portion of compensated absences	957,287	-	957,287
0550 Authority lease obligations	-	-	-
0590 Other long-term liabilities	-	-	-
XXXX Total noncurrent liabilities	32,467,287	-	32,467,287
XXXX Total liabilities	39,374,636	159,690	39,534,326
Net Assets			
0791 Invested in capital assets net of debt	11,305,133	-	11,305,133
Restricted for	-	-	-
Retirement of long-term debt	500	-	500
0793 Capital projects	-	-	-
0794 Permanent endowment - expendable	-	-	-
0795 Permanent endowment - nonexpendable	-	-	-
0798 Other	-	-	-
0799 Unrestricted (deficit)	7,200,292	309,955	7,510,247
0790 Total net assets	18,505,925	309,955	18,815,880
XXXX Total liabilities and net assets	\$ 57,880,561	\$ 469,645	\$ 58,350,206

The accompanying notes are an integral part of these statements.

Warren County School District
Statement of Activities
June 30, 2005

Functions/Programs		Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:								
Instruction:								
1100	Regular instruction	\$ 23,248,190	\$ 34,058	\$ 1,787,148	\$ -	\$ (21,426,984)	\$ -	\$ (21,426,984)
1200	Special instruction	8,683,493	-	5,221,025	-	(3,462,468)	-	(3,462,468)
1300	Vocational instruction	1,301,411	-	375,136	-	(926,275)	-	(926,275)
1400	Other instructional programs	1,929,828	-	1,652,206	-	(277,622)	-	(277,622)
1600	Adult education programs	23,518	20,566	28,079	-	25,127	-	25,127
Total instructional services		35,186,440	54,624	9,063,594	-	(26,068,222)	-	(26,068,222)
Support services:								
2100	Pupil personnel	1,235,281	-	63,833	-	(1,171,448)	-	(1,171,448)
2200	Instructional staff	2,365,904	-	968,859	-	(1,397,045)	-	(1,397,045)
2300	Administration	4,596,244	-	190,848	-	(4,405,396)	-	(4,405,396)
2400	Pupil health	362,786	-	140,403	-	(222,383)	-	(222,383)
2500	Business services	554,184	-	19,572	-	(534,612)	-	(534,612)
2600	Operation and maintenance of plant services	6,185,252	3,356	140,989	-	(6,040,907)	-	(6,040,907)
2700	Student transportation	4,731,058	-	3,066,444	-	(1,664,614)	-	(1,664,614)
2800	Central	177,445	-	174,856	-	(2,589)	-	(2,589)
2900	Other support services	93,272	-	-	-	(93,272)	-	(93,272)
Total support services		20,301,426	3,356	4,765,804	-	(15,532,266)	-	(15,532,266)
Non-instructional services:								
3200	Student activities	1,053,672	56,837	26,123	-	(970,712)	-	(970,712)
3300	Community services (excl. 3340)	38,487	-	36,182	-	(2,305)	-	(2,305)
3400	Scholarships and awards	-	-	-	-	-	-	-
5100-83	Interest on long-term debt	486,741	-	1,112,571	-	625,830	-	625,830
0750	Unallocated depreciation expense	-	-	-	-	-	-	-
Total non-instructional services		1,578,900	56,837	1,174,876	-	(347,187)	-	(347,187)
Total governmental activities		57,066,766	114,817	15,004,274	-	(41,947,675)	-	(41,947,675)
Business-type activities:								
3100	Food service	1,621,614	744,605	839,455	-	-	(37,554)	(37,554)
Total primary government		\$ 58,688,380	\$ 859,422	\$ 15,843,729	\$ -	(41,947,675)	(37,554)	(41,985,229)
General revenues								
Taxes:								
6111	Property taxes, levied for general purposes, net					23,206,945	-	23,206,945
	Taxes levied for specific purposes					-	-	-
	Grants, subsidies and contributions not restricted					21,350,021	-	21,350,021
9640, 9611	Receipts from member districts					-	-	-
6500	Investment earnings					181,191	318	181,509
	Miscellaneous income					(79,287)	9,710	(69,577)
8888	Special items					-	-	-
8889	Extraordinary items					-	-	-
	Transfers					(5,584)	5,584	-
Total general revenues, special items, extraordinary items and transfers						44,653,286	15,612	44,668,898
Change in net assets						2,705,611	(21,942)	2,683,669
Net assets-beginning						15,800,314	331,897	16,132,211
Prior period adjustment						-	-	-
Net assets-ending						\$ 18,505,925	\$ 309,955	\$ 18,815,880

The accompanying notes are an integral part of these statements.

Warren County School District
Balance Sheet
Governmental Funds
June 30, 2005

	General Fund	Capital Reserve	Capital Projects	Debt Service	Non Major Funds	Total Gov't Funds
Assets						
0100 Cash and cash equivalents	\$ 7,036,768	\$ 712,892	\$ 2,234,022	\$ 500	\$ -	\$ 9,984,182
0110 Investments	341,169	-	-	-	-	341,169
0120 Taxes receivable (net)	2,814,518	-	-	-	-	2,814,518
0130 Due from other funds	277,247	524,513	-	-	1,509	803,269
0141 Due from other governments	643,482	-	-	-	-	643,482
0146 Due from primary government	-	-	-	-	-	-
0147 Due from component units	-	-	-	-	-	-
0150 Other receivables	86,424	-	-	-	-	86,424
0160 Advances to other funds	-	-	-	-	-	-
0170 Inventories	-	-	-	-	-	-
0180 Prepaid expenses	634,028	-	-	-	-	634,028
0190 Other current assets	-	-	-	-	-	-
XXXX Total assets	<u>\$ 11,833,636</u>	<u>\$ 1,237,405</u>	<u>\$ 2,234,022</u>	<u>\$ 500</u>	<u>\$ 1,509</u>	<u>\$ 15,307,072</u>
Liabilities and Fund Balance						
Liabilities						
0400 Due to other funds	\$ 643,948	\$ -	\$ -	\$ -	\$ -	\$ 643,948
0411 Due to other governments	-	-	-	-	-	-
0412 Due to primary government	-	-	-	-	-	-
0413 Due to component units	-	-	-	-	-	-
0420 Accounts payable	1,064,822	259,335	338,806	-	863	1,663,826
0430 Contracts payable	-	-	-	-	-	-
0440 Current portion of long-term debt	-	-	-	-	-	-
0450 Short-term payables	-	-	-	-	-	-
0461 Accrued salaries and benefits	2,340,272	-	-	-	646	2,340,918
0462 Payroll deductions and withholdings	8,606	-	-	-	-	8,606
0470 Advances from other funds	-	-	-	-	-	-
0480 Deferred revenues	2,223,199	-	-	-	-	2,223,199
0490 Other current liabilities	169,407	-	-	-	-	169,407
XXXX Total liabilities	<u>6,450,254</u>	<u>259,335</u>	<u>338,806</u>	<u>-</u>	<u>1,509</u>	<u>7,049,904</u>
Fund Balances						
Standard Fund Balance Reserves						
0751 Reserve for inventories	-	-	-	-	-	-
0752 Reserve for prepaid expenses	-	-	-	-	-	-
0753 Reserve for encumbrances	-	-	-	-	-	-
0754 Reserve for retirement of long-term debt	-	-	-	500	-	500
0755 Reserve for Capital Projects	-	-	1,895,216	-	-	1,895,216
0795 Reserve for other (explain)	-	-	-	-	-	-
0760 Specific fund balance reserves	-	-	-	-	-	-
0771 Unreserved - designated	1,247,871	978,070	-	-	-	2,225,941
0772 Unreserved - undesignated	4,135,511	-	-	-	-	4,135,511
XXXX Total fund balances	<u>5,383,382</u>	<u>978,070</u>	<u>1,895,216</u>	<u>500</u>	<u>-</u>	<u>8,257,168</u>
XXXX Total liabilities and fund balances	<u>\$ 11,833,636</u>	<u>\$ 1,237,405</u>	<u>\$ 2,234,022</u>	<u>\$ 500</u>	<u>\$ 1,509</u>	<u>\$ 15,307,072</u>

The accompanying notes are an integral part of these statements.

Warren County School District
Reconciliation of the Governmental Funds Balance Sheet
To the Statement of Net Assets
June 30, 2005

Total fund balances - governmental funds	\$	8,257,168
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$79,165,831, and the accumulated depreciation is \$36,306,589		42,859,242
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.		2,223,182
Allowance for doubtful accounts - taxes receivable		(100,027)
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 \$	(33,575,000)
	Deferred amount on refunding (net)	84,421
	Bond discount (net)	41,264
	Accrued interest on the bonds	(321,639)
	Compensated absences	(1,295,224)
		(35,066,178)
Other:		
	Earned income tax receivable from self-employed individuals	269,947
	Rental subsidy receivable	62,591
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	\$	<u>18,505,925</u>

The accompanying notes are an integral part of these statements.

Non Major Funds	Total Gov. Funds
\$ 56,837	\$ 23,254,918
18,971	32,637,652
-	3,695,806
75,808	59,588,376
-	33,746,689
-	20,062,850
859,104	1,088,997
-	8,269,916
-	2,362,986
859,104	65,531,438
(783,296)	(5,943,062)
-	-
-	-
-	-
783,296	3,726,686
-	4,953
-	-
-	-
-	-
-	-
-	-
-	-
-	(3,732,270)
-	-
-	-
783,296	(631)
-	-
-	-
-	(5,943,693)
-	14,200,861
-	-
\$ -	\$ 8,257,168

Warren County School District
Reconciliation of the Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
To the Statement of Activities
For the Year Ended June 30, 2005

Total net change in fund balances - governmental funds \$ (5,943,693)

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

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

Depreciation expense	\$ (2,220,416)	
Capital outlays	<u>9,149,188</u>	6,928,772

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred tax revenues increased by this amount this year. 482,686

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 1,215,000

Amortization of bond discount and deferred amount on refunding (9,668)

Other:

Change in self-employment taxes receivable	(22,516)
Change in rental reimbursement receivable	20,837
Change in allowance for doubtful accounts	3,448
Change in compensated absences	17,220
Change in accrued interest payable	<u>13,525</u>

Change in net assets of governmental activities \$ 2,705,611

The accompanying notes are an integral part of these statements.

Budget to GAAP Difference	Actual Amounts GAAP basis
\$ (405,637)	\$ 23,386,688
(20,837)	32,639,518
-	3,671,293
(426,474)	59,697,499
(875,265)	23,248,190
(481,794)	8,683,493
(79,170)	1,301,411
(3,522)	1,929,828
-	23,518
-	-
663	1,235,281
41,578	2,365,904
(245,243)	4,596,244
(1,270)	362,786
(3,837)	554,184
2,878	6,161,815
(748)	4,731,058
(9,160)	270,717
-	-
(3,162)	194,568
-	38,487
-	-
-	-
-	19,596
(1,658,052)	55,717,080
1,231,578	3,980,419
-	-
-	-
-	-
233,440	(233,440)
-	-
-	-
-	-
(3,732,270)	-
-	-
-	-
(3,498,830)	(233,440)
-	-
-	-
(2,267,252)	3,746,979
29,705,679	(25,802,024)
488,677	(488,677)
\$ 27,927,104	\$ (22,543,722)

Warren County School District
Statement of Net Assets
Proprietary Funds
June 30, 2005

	Food Service	Internal Service
Assets		
Current Assets		
0100 Cash and cash equivalents	\$ 99,220	\$ -
0110 Investments	-	-
0130 Due from other funds	117,925	-
0141 Due from other governments	26,831	-
0146 Due from primary government	-	-
0147 Due from component units	-	-
0150 Other receivables	6,499	-
0160 Advances to other funds	-	-
0170 Inventories	31,840	-
0180 Prepaid expenses	115,745	-
0190 Other current assets	-	-
XXXX Total current assets	398,060	-
Noncurrent Assets		
0108 Restricted cash and equivalents	-	-
0210 Land and site improvements	-	-
0220 Building and building improvements(net)	-	-
0230 Machinery and equipment (net)	189,510	-
0250 Construction in progress	-	-
0260 Long-term prepayments	-	-
XXXX Total noncurrent assets	189,510	-
XXXX Total assets	\$ 587,570	\$ -
Liabilities		
Current Liabilities		
0400 Due to other funds	\$ 277,246	\$ -
0411 Due to other governments	-	-
0413 Due to component units	-	-
0420 Accounts payable	369	-
0430 Contracts payable	-	-
0440 Current portion of long-term debt	-	-
0450 Short-term payables	-	-
0461 Accrued salaries and benefits	-	-
0462 Payroll deductions and withholdings	-	-
0470 Advances from other funds	-	-
0480 Deferred revenues	-	-
0490 Other current liabilities	-	-
XXXX Total current liabilities	277,615	-
Noncurrent Liabilities		
0510 Bonds payable	-	-
0520 Extended term financing agreements	-	-
0530 Lease purchase obligations	-	-
0540 Long-term portion of compensated abs	-	-
0550 Authority lease obligations	-	-
0590 Other long-term liabilities	-	-
XXXX Total noncurrent liabilities	-	-
XXXX Total liabilities	277,615	-
Net Assets		
0791 Invested in capital assets net of debt	-	-
0798 Restricted for legal purposes	-	-
0799 Unrestricted	309,955	-
0790 Total net assets	309,955	-
XXXX Total liabilities and net assets	\$ 587,570	\$ -

The accompanying notes are an integral part of these statements.

Warren County School District
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2005

	Food Service	Internal Service
Operating Revenues:		
6600 Food service revenue	\$ 744,605	\$ -
6900 Charges for services	-	-
6999 Other operating revenues	9,710	-
	<u>754,315</u>	<u>-</u>
0010 Total operating revenues		
Operating Expenses:		
0100 Salaries	476,802	-
0200 Employee benefits	138,031	-
0300 Purchased professional and technical service	-	-
0400 Purchased property service	-	-
0500 Other purchased service	876,394	-
0600 Supplies	4,854	-
0700 Depreciation	24,983	-
0810 Dues and fees	-	-
0820 Claims and judgments	-	-
0890 Other operating expenditures	100,551	-
	<u>1,621,615</u>	<u>-</u>
0020 Total operating expenses		
0030 Operating income (loss)	<u>(867,300)</u>	<u>-</u>
Nonoperating Revenues (Expenses)		
6500 Earnings on investments	318	-
6920 Contributions and donations	-	-
6930 Gain/loss on sale of fixed assets	-	-
7000 State sources	79,639	-
8000 Federal sources	759,817	-
9500 Refunds of prior year expenditures	-	-
0820 Claims and judgments	-	-
0830 Interest expenses	-	-
	<u>839,774</u>	<u>-</u>
0040 Total nonoperating revenues (expenses)		
Income (loss) before contributions	<u>(27,526)</u>	<u>-</u>
6920 Capital contributions	-	-
9998 Transfers from (to) component units	-	-
9999 Transfers in (out)	5,584	-
	<u>(21,942)</u>	<u>-</u>
Change in net assets		
XXXX Total net assets - July 1, 2004	331,897	-
0057 Accounting changes	-	-
0061 Prior period adjustment	-	-
	<u>\$ 309,955</u>	<u>\$ -</u>
XXXX Total net assets - June 30, 2005		

The accompanying notes are an integral part of these statements.

Warren County School District
Combined Statement of Cash Flows
Proprietary Fund Types
June 30, 2005

	Food Service	Internal Service
Cash Flows From Operating Activities		
9937 Cash received from users	\$ 738,106	\$ -
9938 Cash received from assessments made to other funds	-	-
9939 Cash received from earnings on investments	-	-
9940 Cash received from other operating revenue	9,710	-
9941 Cash payments to employees for services	(614,833)	-
9942 Cash payments for insurance claims	-	-
9943 Cash payments to suppliers for goods and services	(748,089)	-
9944 Cash payments for other operating expenses	(100,551)	-
Net cash provided by (used for) operating activities	(715,657)	-
Cash Flows From Non-Capital Financing Activities		
6000 Local sources	-	-
7000 State sources	77,375	-
8000 Federal sources	735,249	-
9917 Notes and loans received	-	-
9918 Interest paid on notes/loans (5100-830)	-	-
9919 Operating transfers in (out)/ residual equity	5,584	-
9920 Operating transfers in (out) primary government	-	-
9921 Operating transfers in (out) component units	-	-
9922 Refunds of prior year expenditures (9500)	-	-
Net cash provided by (used for) non-capital financing activities	818,208	-
Cash Flows From Capital and Related Financing Activities		
4000 Facilities acquisition/construction/imp. serv	(12,166)	-
6930 Gain/loss on sale of fixed assets (proceeds)	-	-
9200 Proceeds from extended term financing	-	-
9925 Principal paid on financing agreements	-	-
9926 Interest paid on financing agreements (5100-830)	-	-
9927 Change in contributed capital	-	-
Net cash provided by (used for) capital and rel financing activities	(12,166)	-
Cash Flows From Investing Activities		
6500 Earnings on investments	318	-
9929 Purchase of invest securities/deposits to invest pools	-	-
9930 Withdrawals from investment pools	-	-
9931 Proceeds from sale and maturity of invest securities	-	-
9932 Loans received (paid)	-	-
Net cash provided by (used for) investing activities	318	-
Net increase (decrease) in cash and cash flows	90,703	-
9935 Cash and cash equivalents beginning of year	8,517	-
9936 Cash and cash equivalents at year end	\$ 99,220	\$ -

The accompanying notes are an integral part of these statements.

Warren County School District
Combined Statement of Cash Flows
Proprietary Fund Types - Continued
June 30, 2005

	Food Service	Internal Service
9900 Operating income (loss)	\$ (867,300)	\$ -
Adjustments to reconcile operating income (loss) to net cash provided by (used for):		
9901 Depreciation and net amortization	24,983	-
9902 Provision for uncollectible accounts	-	-
9903 Write-in	-	-
9904 (Increase) decrease in accounts receivable	(6,499)	-
9905 (Increase) decrease in advances to other funds	(22,925)	-
9906 (Increase) decrease in inventories	(12,134)	-
9907 (Increase) decrease in prepaid expenses	(10,445)	-
9908 (Increase) decrease in other current assets	-	-
9909 Increase (decrease) in accounts payable	(153)	-
9910 Increase (decrease) in accrued salaries and benefits	-	-
9911 Increase (decrease) in payroll deductions/withholding	-	-
9912 Increase (decrease) in advances from other funds	178,816	-
9913 Increase (decrease) in deferred revenue	-	-
9914 Increase (decrease) in other current liabilities	-	-
Total adjustments	151,643	-
Cash provided by (used for) total	\$ (715,657)	\$ -

The accompanying notes are an integral part of these statements.

Warren County School District
Statement of Net Assets
Fiduciary Funds
June 30, 2005

		Agency Funds		Trust Funds	Total
		Student Activities	Earned Income Tax Office		
Assets					
0100	Cash and cash equivalents	\$ 137,744	\$ 159,098	\$ 22,268	\$ 319,110
0110	Investments	-	638,812	203,644	842,456
0130	Due from other funds	-	-	-	-
0147	Due from component units	-	-	-	-
0150	Other receivables	-	-	-	-
0160	Advances to other funds	-	-	-	-
0170	Inventories	-	-	-	-
0180	Prepaid expenses	-	-	-	-
0190	Other current assets	-	-	-	-
0220	Building and building improvements(net)	-	-	-	-
0230	Machinery and equipment (net)	-	-	-	-
XXXX	Total assets	<u>\$ 137,744</u>	<u>\$ 797,910</u>	<u>\$ 225,912</u>	<u>\$ 1,161,566</u>
Liabilities					
0420	Accounts payable	\$ 137,744	\$ 797,910	\$ -	\$ 935,654
0430	Contracts payable	-	-	-	-
0450	Short-term payables	-	-	-	-
0400	Due to other funds	-	-	-	-
0411	Due to other governments	-	-	-	-
0412	Due to primary government	-	-	-	-
0413	Due to component units	-	-	-	-
0461	Accrued salaries and benefits	-	-	-	-
0462	Payroll deductions and withholdings	-	-	-	-
0470	Advances from other funds	-	-	-	-
0480	Deferred revenues	-	-	-	-
0490	Other current liabilities	-	-	-	-
XXXX	Total liabilities	<u>137,744</u>	<u>797,910</u>	<u>-</u>	<u>935,654</u>
Net Assets					
0791	Invested in capital assets net of debt	-	-	-	-
0798	Restricted for legal purposes	-	-	225,912	225,912
0799	Unrestricted	-	-	-	-
XXXX	Total net assets	<u>-</u>	<u>-</u>	<u>225,912</u>	<u>225,912</u>
XXXX	Total liabilities and net assets	<u>\$ 137,744</u>	<u>\$ 797,910</u>	<u>\$ 225,912</u>	<u>\$ 1,161,566</u>

The accompanying notes are an integral part of these statements.

Warren County School District
Statement of Changes in Net Assets
Fiduciary Funds
For the Year Ended June 30, 2005

	<u>Trust Funds</u>
Additions	
Gifts and contributions	\$ -
Earnings on investments	13,877
Deductions	
Scholarships awarded	<u>(7,606)</u>
Change in net assets	6,271
Net assets-July 1, 2004	<u>219,641</u>
Net assets-June 30, 2005	<u>\$ 225,912</u>

The accompanying notes are an integral part of these statements.

Warren County School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. Financial Reporting Entity

For financial reporting purposes the 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 District is determined on the basis of budget adoption, taxing authority, outstanding debt secured by revenues or general obligation of the District to finance any deficits that may occur, or receipt of significant subsidies from the District, and reporting responsibility of the entity in question.

The 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.

2. 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 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.

Warren County School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The District reports the following major governmental funds:

General Fund - 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.

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

Capital Projects Fund - The Capital Projects Fund is used to account for financial resources to be used for the acquisition, construction or repair of capital facilities (other than those financed by the Proprietary Fund). The District's capital projects fund consists of the proceeds from the District's General Obligation Bonds, Series of 2002, Series of 2003 and Series of 2004, which were issued for construction and improvements to various schools within the District.

Debt Service Fund - 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:

Food Service - 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 fund types:

Athletic Fund - The Athletic Fund is a non-major governmental fund used to account for all the financial activities of the athletic organizations.

Fiduciary 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.

Warren County School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

These include the Student Activities Funds, Trust Funds and the District's Earned Income Tax Office, which are both classified as Agency Funds as they are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

3. Basis of Presentation

Government-Wide Financial Statements

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

The government-wide financial statements are prepared 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.

Warren County School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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

4. 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.

Nonexchange 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 nonexchange transactions must also be available before it can be recognized.

Warren County School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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.

5. 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.

The District levied real estate taxes of \$18,962,056 on July 1, 2004 based on a gross assessed valuation of \$435,909,332 at 43.5 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 lienied.

6. 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.

Warren County School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- 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.
- 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.

7. 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.

8. Investments

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

9. Inventory

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

Warren County School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

10. Capital Assets and Depreciation

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The District defines capital assets as assets with an initial, individual cost of \$300 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:

Buildings & Improvements	20-40 years
Machinery & Equipment	5-20 years

11. 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 nonoperating revenues/expenses in proprietary funds.

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

12. 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.

Warren County School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 \$237,556 for unused vacation pay and \$1,057,668 for accumulated sick pay.

13. 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 are not recognized as a liability in the financial statements until due.

14. 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 \$100,000 federally insured limit. See Note B for further detail.

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.

15. 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.

Warren County School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

16. Pension Plan Description

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

Funding Policy

The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers, and the Commonwealth. Most active members contribute at 5.25 or 6.50 percent of the member's qualifying compensation. Members joining the system on or after July 22, 1983 contribute at 6.25 or 7.50 percent. Members joining the system after June 30, 2001 contribute at 7.50 percent. Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 30, 2005 the rate of employer contribution was 4.23 percent of covered payroll. The 4.23 percent rate is composed of a pension contribution rate of 4.00 percent for pension benefits and .23 percent for healthcare insurance premium assistance. The School District's contributions to the system for the years ending June 30, 2005, 2004 and 2003 were \$1,230,656, \$1,169,582 and \$326,185, respectively, equal to the required contributions for each year.

NOTE B - 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, certificates of deposit to the extent such certificates are secured by a proper bond or secured by such proper collateral.

Warren County School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE B - NON-POOLED CASH AND INVESTMENTS - Continued

1. Deposits

Deposits are carried at cost. The carrying amount of deposits is separately displayed on the balance sheet as "cash". Deposits of the District are classified into three categories to give an indication of the level of risk assumed at year-end. Category 1 includes deposits insured or collateralized which are held by the District or its agent in the District's name. Category 2 includes deposits collateralized with securities held by the trust department or agent in the District's name. Category 3 includes un-collateralized deposits and deposits collateralized with securities held by the trust department or agent but not in the District's name. The year end balances as categorized above are as follows:

<u>Category</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
1	\$ 300,000	\$ 300,000
2	-	-
3	<u>8,848,471</u>	<u>9,986,497</u>
Total deposits	<u>\$9,148,471</u>	<u>\$10,286,497</u>

2. Investments

The District's investments are categorized below to give an indication of the level of credit risk assumed at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by it's trust department or agent but not in the District's name.

	<u>Category 3</u>	<u>Cost Basis</u>	<u>Market Value</u>
PLIGIT/ARM money market	\$ 2,234,022	\$ 2,234,022	\$ 2,234,022
Various mutual funds	<u>203,644</u>	<u>203,644</u>	<u>203,644</u>
	<u>\$ 2,437,666</u>	<u>\$ 2,437,666</u>	<u>\$ 2,437,666</u>

Warren County School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE B - NON-POOLED CASH AND INVESTMENTS - Continued

Summary of Deposits and Investments as reflected above is as follows:

Deposits	\$ 9,148,471
Investments	<u>2,437,666</u>
	<u>\$11,586,137</u>

The above balances are reported in the accompanying balance sheet as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash	\$ 9,984,182	\$ 99,220	\$ 319,110	\$10,402,512
Investments	<u>341,169</u>	<u>-</u>	<u>842,456</u>	<u>1,183,625</u>
	<u>\$ 10,325,351</u>	<u>\$ 99,220</u>	<u>\$1,161,566</u>	<u>\$11,586,137</u>

NOTE C - TAXES RECEIVABLE

Taxes receivable consist of the following at June 30, 2005:

	<u>Government- Wide Statements</u>	<u>Fund Statements</u>
Delinquent real estate taxes	\$ 2,720,381	\$2,720,381
Delinquent per capita	65,390	65,390
Earned income tax	269,946	-
Realty transfer tax	28,747	28,747
Allowance for doubtful accounts	(<u>100,027</u>)	<u>-</u>
	<u>\$ 2,984,437</u>	<u>\$2,814,518</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, \$2,223,182 of the delinquent real estate taxes deemed not available as of June 30, 2005 has been recorded as deferred revenue on the governmental funds balance sheet.

Warren County School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE D - INTERFUND TRANSACTIONS

Interfund receivables and payables on the fund statements at June 30, 2005 consist of the following:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General fund	\$ 277,247	\$ 643,948
Capital reserve fund	524,513	-
Athletic fund	1,509	-
Enterprise fund	<u>117,925</u>	<u>277,246</u>
	<u>\$ 921,194</u>	<u>\$ 921,194</u>

Interfund transfers on the fund statements at June 30, 2005 consist of the following:

	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$ -	\$ 3,732,270
Capital Reserve Fund	600,000	-
Debt Service Fund	2,343,390	-
Athletic Fund	783,296	-
Enterprise Fund	<u>5,584</u>	<u>-</u>
	<u>\$ 3,732,270</u>	<u>\$ 3,732,270</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 Athletic Fund, the Capital Reserve Fund and the Enterprise Fund were made to fund activities and certain repairs and maintenance of the District's buildings and facilities.

Warren County School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE E - CAPITAL ASSETS

A summary of capital asset activity during the year follows:

	Balance June 30, 2004	Additions	Deletions	Balance June 30, 2005
Governmental Activities				
Land & Improvements	\$ 1,982,550	\$ -	\$ 37,683	\$ 1,944,867
Buildings & Improvements	38,022,156	-	932,515	37,089,641
Machinery & Equipment	18,661,657	1,167,194	455,678	19,373,173
Construction-In-Progress	<u>12,542,718</u>	<u>8,215,432</u>	<u>-</u>	<u>20,758,150</u>
Total Capital Assets	<u>71,209,081</u>	<u>9,382,626</u>	<u>1,425,876</u>	<u>79,165,831</u>
Less: Accumulated Depreciation:				
Site Improvements	1,136,058	31,941	31,102	1,136,897
Buildings & Improvements	22,947,658	654,684	727,045	22,875,297
Machinery & Equipment	<u>11,194,894</u>	<u>1,533,790</u>	<u>434,289</u>	<u>12,294,395</u>
Total Accumulated Depreciation	<u>35,278,610</u>	<u>2,220,415</u>	<u>1,192,436</u>	<u>36,306,589</u>
Capital Assets, Net	<u>\$ 35,930,471</u>	<u>\$ 7,162,211</u>	<u>\$ 233,440</u>	<u>\$ 42,859,242</u>
Business-Type Activities				
Equipment	\$ 837,969	\$ 12,166	\$ -	\$ 850,135
Less: Accumulated Depreciation	<u>635,643</u>	<u>24,982</u>	<u>-</u>	<u>660,625</u>
Capital Assets, Net	<u>\$ 202,326</u>	<u>(\$ 12,816)</u>	<u>\$ -</u>	<u>\$ 189,510</u>

NOTE F - OTHER CURRENT LIABILITIES

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

Accrued interest payable	\$ 321,639
Current portion of compensated absences	337,937
Deferred grant revenue	4,066
Retirees prepaid health insurance	168,803
Schools' holding accounts	(<u>3,463</u>)
	<u>\$ 828,982</u>

Warren County School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE G - NONCURRENT LIABILITIES

1. General Obligation Bonds

The General Obligation Bonds consist of the following as of June 30, 2005:

Series of 2001

The Series of 2001 bonds were issued on September 1, 2001 in the amount of \$7,765,000. The bonds mature serially at various amounts through September 1, 2013 and bear interest ranging from 2.50% to 4.35%. The net proceeds after payment of underwriter fees and other issuance costs were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series of 1996. As a result, the Series of 1996 is considered to be defeased and the liability has been removed from the financial statements.

Series of 2002

The Series of 2002 bonds were issued on November 15, 2002 in the amount of \$10,000,000. The bonds mature serially at various amounts through September 1, 2017 and bear interest ranging from 1.6% to 4.1%. These bonds were issued to provide resources for various construction and improvement projects at various schools in the District.

Series of 2003

The Series of 2003 bonds were issued on June 15, 2003 in the amount of \$10,000,000. The bonds mature serially at various amounts through September 1, 2023 and bear interest ranging from 2.00% to 4.15%. These bonds were issued to provide resources for various construction and improvement projects at various schools in the District.

Series of 2004

The Series of 2004 bonds were issued on April 15, 2004 in the amount of \$7,930,000. The bonds mature serially at various amounts through November 15, 2018 and bear interest ranging from 2.00% to 3.75%. These bonds were issued to provide resources to refund the Series of 1998 bonds and for the acquisition and installation of technology equipment at various District facilities.

Warren County School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE G - NONCURRENT LIABILITIES - Continued

2. Lease Obligations

The District leases its office space under a lease agreement expiring in 2005. The District has the option of renewing the lease annually and is expected to do so in future years. The terms of the lease call for annual rental payments of \$1 and monthly utility charges of \$8,565.

The changes in noncurrent liabilities for the year ended June 30, 2005 consist of the following:

	Balance at June 30, 2004	Increases	Decreases	Balance at June 30, 2005	Due in One Year
General Obligation					
Bonds, Series of					
2001	\$ 6,860,000	\$ -	\$ 585,000	\$ 6,275,000	\$ 595,000
2002	10,000,000	-	340,000	9,660,000	620,000
2003	10,000,000	-	170,000	9,830,000	395,000
2004	<u>7,930,000</u>	<u>-</u>	<u>120,000</u>	<u>7,810,000</u>	<u>455,000</u>
	34,790,000	-	1,215,000	33,575,000	2,065,000
Compensated Absences					
Sick pay	1,043,936	127,482	113,750	1,057,668	100,381
Vacation pay	<u>268,508</u>	<u>300,896</u>	<u>331,848</u>	<u>237,556</u>	<u>237,556</u>
	<u>1,312,444</u>	<u>428,378</u>	<u>445,598</u>	<u>1,295,224</u>	<u>337,937</u>
	36,102,444	428,378	1,660,598	34,870,224	<u>\$2,402,937</u>
Less: Current Portion	<u>1,743,953</u>	<u>658,984</u>	<u>-</u>	<u>2,402,937</u>	
Total Noncurrent Liabilities	<u>\$34,358,491</u>	<u>(\$ 230,606)</u>	<u>\$ 1,660,598</u>	<u>\$32,467,287</u>	

Warren County School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE G - NONCURRENT LIABILITIES - Continued

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>June 30,</u>			
2006	\$ 2,065,000	\$ 1,073,663	\$ 3,138,663
2007	2,215,000	1,024,047	3,239,047
2008	2,260,000	969,310	3,229,310
2009	2,325,000	909,544	3,234,544
2010	2,380,000	842,369	3,222,369
Thereafter	<u>22,330,000</u>	<u>4,311,809</u>	<u>26,641,809</u>
	<u>\$33,575,000</u>	<u>\$ 9,130,742</u>	<u>\$ 42,705,742</u>

NOTE H - DESIGNATED FUND BALANCE

The School District has designated \$1,247,871 of its unreserved fund balance at June 30, 2005. The purpose of the designation is to provide for resources available in the general fund budget for the year ended June 30, 2006.

NOTE I - CHANGES IN AGENCY FUNDS

The changes in agency funds consist of the following:

	<u>Balance at June 30, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2005</u>
Tax Collection Fund	\$ 930,793	\$ 7,942,856	\$ 8,075,739	\$ 797,910
Student Activity Funds	<u>147,878</u>	<u>546,243</u>	<u>556,377</u>	<u>137,744</u>
	<u>\$ 1,078,671</u>	<u>\$ 8,489,099</u>	<u>\$ 8,632,116</u>	<u>\$ 935,654</u>

NOTE J - POST-EMPLOYMENT BENEFITS

The District has adopted a policy to continue payments toward the cost of hospital, medical and major medical insurance for retired employees until they attain age 65 at the contribution rates in effect for such employees.

Warren County School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE J - POST-EMPLOYMENT BENEFITS - Continued

Effective July 1, 1993, for those who retire from the District on or after July 1, 1993 at the age of 51 or older with 30 years of service, at least 10 of which were with the Professional Bargaining Unit, the Board will pay toward their hospital, medical and major medical insurance an amount equal to 100% of the rate in effect on July 1, 1993 from the time of the employee's retirement until such employee shall reach age 65.

When the current retirement window permitting full retirement at 30 years of service closed on July 1, 1997, the age 51 provision reverted to age 55.

The District will fund these costs on a pay-as-you-go basis and include a provision for these costs in each year's annual budget. The total future cost to the District is estimated to be \$4,288,880. The total amount paid for post-retirement benefits for the year ended June 30, 2005 was \$874,294.

NOTE K - 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 L - CONTINGENT LIABILITIES AND COMMITMENTS

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 School District has executed contracts for various construction projects. The balance due on uncompleted contracts as of June 30, 2005 is \$1,063,627.

SUPPLEMENTAL INFORMATION

GRANT AMOUNT	TOTAL RECEIVED FOR THE YEAR	ACCRUED/ (DEFERRED) REVENUE AT 7/1/04	REVENUE RECOGNIZED	EXPENDITURES	ACCRUED/ (DEFERRED) REVENUE AT 6/30/05
\$906,214.00	\$0.00	(\$90,343.97)	\$137,925.50	\$137,925.50	\$47,581.53
\$485,908.00	\$80,000.00	(\$101,779.36)	\$290,146.71	\$290,146.71	\$108,367.35
	<u>\$80,000.00</u>	<u>(\$192,123.33)</u>	<u>\$428,072.21</u>	<u>\$428,072.21</u>	<u>\$155,948.88</u>
\$1,058,640.00	\$705,760.00	\$0.00	\$826,640.99	\$826,640.99	\$120,880.99
\$1,073,571.00	\$428,687.88	\$178,499.48	\$250,188.40	\$250,188.40	\$0.00
	<u>\$1,134,447.88</u>	<u>\$178,499.48</u>	<u>\$1,076,829.39</u>	<u>\$1,076,829.39</u>	<u>\$120,880.99</u>
\$37,855.00	\$22,713.03	\$0.00	\$37,855.00	\$37,855.00	\$15,141.97
\$48,310.00	\$16,103.30	(\$555.67)	\$16,658.97	\$16,658.97	\$0.00
	<u>\$38,816.33</u>	<u>(\$555.67)</u>	<u>\$54,513.97</u>	<u>\$54,513.97</u>	<u>\$15,141.97</u>
\$174,254.00	\$151,019.93	\$0.00	\$155,028.59	\$155,028.59	\$4,008.66
\$25,319.00	\$13,503.49	\$13,503.49	\$0.00	\$0.00	\$0.00
	<u>\$164,523.42</u>	<u>\$13,503.49</u>	<u>\$155,028.59</u>	<u>\$155,028.59</u>	<u>\$4,008.66</u>
\$96,083.00	\$96,083.00	\$0.00	\$96,065.83	\$96,065.83	(\$17.17)
\$94,258.00	(\$1,369.00)	(\$19.00)	(\$1,350.00)	(\$1,350.00)	\$0.00
	<u>\$94,714.00</u>	<u>(\$19.00)</u>	<u>\$94,715.83</u>	<u>\$94,715.83</u>	<u>(\$17.17)</u>
\$365,115.00	\$243,410.00	\$0.00	\$265,300.45	\$265,300.45	\$21,890.45
\$370,351.00	\$123,450.30	\$69,597.11	\$53,853.19	\$53,853.19	\$0.00
	<u>\$366,860.30</u>	<u>\$69,597.11</u>	<u>\$319,153.64</u>	<u>\$319,153.64</u>	<u>\$21,890.45</u>
\$35,106.00	\$35,106.00	\$0.00	\$35,106.00	\$35,106.00	\$0.00
\$36,665.00	\$0.00	(\$2,804.50)	\$2,804.50	\$2,804.50	\$0.00
	<u>\$35,106.00</u>	<u>(\$2,804.50)</u>	<u>\$37,910.50</u>	<u>\$37,910.50</u>	<u>\$0.00</u>
\$35,000.00	\$2,692.31	\$0.00	\$31,390.00	\$31,390.00	\$28,697.69
	<u>\$2,692.31</u>	<u>\$0.00</u>	<u>\$31,390.00</u>	<u>\$31,390.00</u>	<u>\$28,697.69</u>
	<u>\$1,917,160.24</u>	<u>\$66,097.58</u>	<u>\$2,197,614.13</u>	<u>\$2,197,614.13</u>	<u>\$346,551.47</u>
\$1,259,801.00 F	\$1,259,801.00	\$0.00	\$1,259,801.00	\$1,259,801.00	\$0.00
	<u>\$1,259,801.00</u>	<u>\$0.00</u>	<u>\$1,259,801.00</u>	<u>\$1,259,801.00</u>	<u>\$0.00</u>

GRANT AMOUNT		TOTAL RECEIVED FOR THE YEAR	ACCRUED/ (DEFERRED) REVENUE AT 7/1/04	REVENUE RECOGNIZED	EXPENDITURES	ACCRUED/ (DEFERRED) REVENUE AT 6/30/05
\$4,000.00	F	\$3,756.86	\$3,756.86	\$0.00	\$0.00	\$0.00
		\$3,756.86	\$3,756.86	\$0.00	\$0.00	\$0.00
		\$1,263,557.86	\$3,756.86	\$1,259,801.00	\$1,259,801.00	\$0.00
N/A		\$514,150.13	\$0.00	\$532,691.43	\$532,691.43	\$18,541.30
N/A	S	\$48,679.64	\$0.00	\$50,449.12	\$50,449.12	\$1,769.48
N/A		\$131,898.40	\$0.00	\$137,924.70	\$137,924.70	\$6,026.30
N/A	S	\$10,770.20	\$0.00	\$11,264.60	\$11,264.60	\$494.40
		\$705,498.37	\$0.00	\$732,329.85	\$732,329.85	\$26,831.48
		(\$59,449.84)	\$0.00	(\$61,713.72)	(\$61,713.72)	(\$2,263.88)
		\$646,048.53	\$0.00	\$670,616.13	\$670,616.13	\$24,567.60
N/A	F	\$89,200.54	(\$19,706.00)	\$77,066.12	\$77,066.12	(\$31,840.42)
		\$735,249.07	(\$19,706.00)	\$747,682.25	\$747,682.25	(\$7,272.82)
\$500,000.00	F	\$475,487.00	\$475,487.00	\$24,513.00	\$24,513.00	\$24,513.00
		\$475,487.00	\$475,487.00	\$24,513.00	\$24,513.00	\$24,513.00
\$829,411.70	F	\$829,411.70	\$0.00	\$829,411.70	\$829,411.70	\$0.00
		\$2,040,147.77	\$455,781.00	\$1,601,606.95	\$1,601,606.95	\$17,240.18
		\$5,220,865.87	\$525,635.44	\$5,059,022.08	\$5,059,022.08	\$363,791.65

WARREN COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2005

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is a summary of the activity of the District's federal award programs presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

NOTE B - NATIONAL SCHOOL LUNCH PROGRAM

Expenditures for the National School Lunch program include \$61,713.72 of expenditures related to state monies.

NOTE C - MEDICAL ASSISTANCE - ACCESS

The confirmation from PDE included \$200,000.00 paid to the District under CFDA #93.778 for medical assistance-access under project # 044-007459, which in accordance with a directive from PDE has not been included on the District's schedule of expenditures of federal awards.

NOTE D - IDENTIFICATION OF 50% RULE (25% FOR LOW RISK AUDITEES)

Total expenditures		\$	5,059,022.08
less state expenditures			<u>-</u>
Total Federal Financial Assistance		\$	<u>5,059,022.08</u>
Programs selected for testing:			
Title I	84.010	\$	1,076,829.39
Schools and Roads Cluster			
Schools and Roads - Grants to States	10.665		<u>829,411.70</u>
		\$	<u>1,906,241.09</u>
% of Total Federal Financial Assistance			<u>37.7%</u>

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

Members of the School Board
Warren County School District

We have audited the financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Warren County School District, Warren, Pennsylvania as of and for the year ended June 30, 2005, and have issued our report thereon dated October 14, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Warren County School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Warren County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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

Root, Spitznagel and Smiley, Inc

October 14, 2005

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

Members of the School Board
Warren County School District

Compliance

We have audited the compliance of Warren County School District, Warren, Pennsylvania with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2005. Warren County School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of Warren County School District's management. Our responsibility is to express an opinion on Warren County School District's compliance based on our audit.

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

In our opinion, Warren County School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

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

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

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

Root, Spitznagel and Smiley, Inc

October 14, 2005

Warren County School District
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2005

Summary of Auditors' Results:

Financial Statements

1. Type of auditors' report issued: unqualified
2. Internal control over financial reporting:

Material weakness(es) identified? ☐ yes ☒ no

Reportable condition(s) identified
that are not considered to be
material weaknesses? ☐ yes ☒ none
3. Noncompliance material to financial
statements noted? ☐ yes ☒ no

Federal Awards

1. Internal control over major programs:

Material weakness(es) identified? ☐ yes ☒ no

Reportable condition(s) identified
that are not considered to be
material weaknesses? ☐ yes ☒ none
2. Type of auditors' report issued
on compliance for major programs: unqualified
3. Any audit findings disclosed that are
required to be reported in accordance
with section 510(a) of Circular A-133? ☐ yes ☒ no
4. Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
84.010	Title I
10.665	Schools and Roads Cluster
	Schools and Roads - Grants to States

5. Dollar threshold used to distinguish
between type A and type B programs: \$300,000
6. Auditee qualified as low-risk auditee? ☒ yes ☐ no

Audit Findings:

The audit resulted in no current findings

Warren County School District

EXIT CONFERENCE

June 30, 2005

An exit conference was held on December 8, 2005. In attendance were:

Darin R. A. Schulz, Business Administrator
Warren County School District

John W. Orlando, CPA, Manager
Root, Spitznas and Smiley, Inc.

A draft of the audit report for the Warren County School District, Warren, Pennsylvania, for the year ended June 30, 2005 was reviewed. Special attention was devoted to reviewing the various reports on internal controls and reports on compliance.

List of Report Distribution

Copies

5	Commonwealth of Pennsylvania Office of the Budget/Bureau of Audits 303 Walnut Street Bell Tower - Strawberry Square 6th Floor Harrisburg, Pennsylvania 17101
1	Northwest Pennsylvania Training Partnership P.O. Box 1 Highway 322 East Franklin, Pennsylvania 16323
1	Northwest Tri-County Intermediate Unit 252 Waterford Street Edinboro, Pennsylvania 16412
1	Warren County Courthouse Prothonotary's Office Warren, Pennsylvania 16365
1	Federal Audit Clearinghouse Bureau of Census 1201 East 10th Street Jeffersonville, Indiana 47132
	Attn: U.S. Department of Education Submission