

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

June 30, 2008

Root, Spitznas & Smiley, Inc.

Certified Public Accountants

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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, 2008, 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;
4. a separate memorandum of advisory comments and other matters involving the internal control structure (management letter).

Root, Spitznas and Smiley, Inc.

December 9, 2008

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Independent Auditor's 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 aggregate remaining fund information of the Warren County School District, Warren, Pennsylvania, as of and for the year ended June 30, 2008, 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, 2008, and the respective changes in financial position and, where applicable, cash flows 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 December 9, 2008, on our consideration of the 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 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 important for assessing the results of our audit.

The management's discussion and analysis on pages 3 through 8 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.

December 9, 2008

WARREN COUNTY SCHOOL DISTRICT

Management Discussion and Analysis

For the Year Ended June 30, 2008

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, 2008. 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 2007-2008 include:

Total 2007-2008 general fund revenues amounted to \$65,463,171 compared to 2006-2007 total revenue of \$63,941,501. This represented a 2.38% increase in revenues.

The general fund expenses, including transfers, of the District amounted to \$ 65,030,892. in 2007-2008 compared to total expenses in 2006-2007 of \$62,603,328. This represented a 3.88% increase in expenses.

The General Fund Total Fund Balance at fiscal year ending 2007-2008 was \$7,192,838, which represented a favorable change of \$432,279 (6.39%) from the prior year's fund balance of \$6,760,559. Included in the Total Fund Balance is a designation of \$995,198 for 2008-2009 operations, \$500,000 for Capital Projects and \$500,000 for School Board and tax contingencies. The Unreserved-Undesignated Fund Balance of \$5,197,640 at fiscal year ending June 30, 2008 represented 7.993% of the total expenses in the fiscal year compared to the fund balance at fiscal year ended June 30, 2007, which represented 8.76% of the expenses for that period. Although the 2007-2008 approved fiscal budget projected the use of approximately \$1.276 million of the beginning fund balance to balance the budget, a significant increase in investment earnings, unanticipated grant revenues, along with implementing significant expenditure cost containment measures; resulted in the \$432,279 increase to the beginning fund balance. The projected use of fund balance in the 2006-2007 year was budgeted at approximately \$2.39 million.

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

USING THE ANNUAL FINANCIAL REPORT:

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

WARREN COUNTY SCHOOL DISTRICT

Management Discussion and Analysis

For the Year Ended June 30, 2008

Required Supplementary Information

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 2007-2008.

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 2007-2008 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 2007-2008 fiscal year. The reports will show whether the District as a whole has seen an increase or decrease in its financial position. The causes for this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, student enrollment, facility conditions, required educational programs and other factors.

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

- **Governmental Activities** – Most of the District's programs and services are reported here and include instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

WARREN COUNTY SCHOOL DISTRICT

Management Discussion and Analysis

For the Year Ended June 30, 2008

Required Supplementary Information

- **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 2007-2008 resulted in an increase in net assets of \$2,455,783. The increase resulted primarily from additional cost containment measures applied during 2007-2008 compared to the 2006-2007 fiscal year, as well as increases in State and Federal grants. The cash flow of the district benefited significantly from an enhanced fund balance.

| | 2007-2008 | 2006-2007 |
|--------------------------|---------------------|---------------------|
| Property Taxes | \$24,739,817 | \$24,881,766 |
| Grants, subsidies, other | \$23,449,381 | \$22,805,896 |
| Investment earnings | \$606,593 | \$634,525 |
| Miscellaneous income | \$634,996 | \$261,166 |
| Transfers between Govt's | \$(97,543) | 0 |
| Total | \$49,333,244 | \$48,583,353 |

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 2007-2008 the general fund transferred \$97,543 to the food service fund primarily for Cafeteria Tables and Equipment.

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, 2008

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.

| | 2007-2008 | 2006-2007 |
|-----------------|---------------------|---------------------|
| Local Revenue | \$25,530,160 (39%) | \$25,441,001 (40%) |
| State Revenue | \$36,968,793 (56%) | \$35,139,387 (55%) |
| Federal & Other | \$ 2,964,218 (5%) | \$ 3,361,103 (5%) |
| TOTAL | \$65,463,171 | \$63,941,501 |

General Fund Expenses

The District's program expenses are 60 percent instruction; 31 percent support; and 9 percent non-instructional (including debt payments and transfers).

| | 2007-2008 | 2006-2007 |
|------------------------|---------------------|---------------------|
| Instruction | \$39,119,364 (60%) | \$37,555,808 (60%) |
| Support Services | \$20,222,524 (31%) | \$19,515,683 (31%) |
| Non-Instruction & Debt | \$ 5,689,004 (9%) | \$ 5,531,837 (9%) |
| TOTAL | \$65,030,892 | \$62,603,328 |

WARREN COUNTY SCHOOL DISTRICT

Management Discussion and Analysis

For the Year Ended June 30, 2008

Required Supplementary Information

The 2007-2008 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:

| | 2007-2008 |
|------------------|---------------------|
| General Fund | \$7,192,838 |
| Capital Reserve | \$3,138,436 |
| Capital Projects | \$ 5,147 |
| Debt Service | \$ 500 |
| Total | \$10,336,921 |

General Fund Budget Highlights

The \$65,463,171 of revenues in the general fund in 2007-2008 applied against the total general fund expenditure outlay of \$65,030,892 resulted in a net increase to the fund balance of \$432,279. Although the District recognizes a fund balance of \$7,192,838, it also realizes that **post-retirement benefits** accounts for over \$4,100,000 and needs to be considered as a designation of that fund balance, that \$995,198 is included to fund 2008-2009 operating expenses, and \$1,000,000 is designated for other purposes.

Comparison of Transfer Out Accounts

| | 2007-2008 | 2006-2007 |
|---------------------------|---------------------|---------------------|
| Contribution to Athletics | \$ 854,018 | \$ 847,381 |
| Contribution to Food Svc | \$ 97,543 | \$ 0 |
| Contribution/Capital Resv | \$ 1,250,000 | \$ 1,250,000 |
| Debt Service Payments | \$ 3,231,720 | \$ 3,241,458 |
| TOTALS | \$ 5,433,281 | \$ 5,338,839 |

Capital Asset and Debt Administration

At the end of fiscal year 2007-2008, the District had \$42 million invested in land, buildings, equipment and construction-in-process (\$83.1 million, less accumulated depreciation of \$41.1 million).

WARREN COUNTY SCHOOL DISTRICT

Management Discussion and Analysis

For the Year Ended June 30, 2008

Required Supplementary Information

Debt Administration

The existing bonds payable at June 30, 2008, totaled \$27,035,000. The debt payments for the fiscal year totaled \$3,229,310.

At June 30, 2008, the District's non-electoral limit for debt (225% of borrowing base) was \$140 million; less existing debt of \$ 27 Million leaves the district with a borrowing capacity of \$ 113 million.

Factors Expected to have an Effect on Future Operations

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

FINANCIAL STATEMENTS

Warren County School District
Statement of Net Assets
June 30, 2008

| | Governmental Activities | Business-Type Activities | Total |
|--|----------------------------|-----------------------------|---------------|
| Assets | | | |
| Current Assets | | | |
| 0100 Cash and cash equivalents | \$ 6,405,518 | \$ 44,592 | \$ 6,450,110 |
| 0110 Investments | 4,032,252 | - | 4,032,252 |
| 0120 Taxes receivable (net) | 3,382,942 | - | 3,382,942 |
| 0141 Due from other governments | 991,397 | 118,713 | 1,110,110 |
| 0146 Due from primary government | - | - | - |
| 0147 Due from component units | - | - | - |
| 0150 Other receivables | 126,898 | 8,896 | 135,794 |
| 0170 Inventories | - | 6,819 | 6,819 |
| 0180 Prepaid expenses | 671,669 | - | 671,669 |
| 0190 Other current assets | 349,765 | - | 349,765 |
| XXXX Total current assets | 15,960,441 | 179,020 | 16,139,461 |
| Noncurrent Assets | | | |
| 0108 Restricted cash and cash equivalents | - | - | - |
| 0260 Long-term prepayments | - | - | - |
| 0210 Land and site improvements (net) | 1,300,482 | - | 1,300,482 |
| 0220 Building and building improvements (net) | 34,550,674 | - | 34,550,674 |
| 0230 Machinery and equipment (net) | 5,641,138 | 246,304 | 5,887,442 |
| 0250 Construction in progress | 504,324 | - | 504,324 |
| 0280 Infrastructure assets (net) | - | - | - |
| 0290 Other long-term receivables | - | - | - |
| XXXX Total noncurrent assets | 41,996,618 | 246,304 | 42,242,922 |
| XXXX Total assets | \$ 57,957,059 | \$ 425,324 | \$ 58,382,383 |
| Liabilities | | | |
| Current Liabilities | | | |
| 0403 Internal balances | \$ (179,359) | \$ 179,359 | \$ - |
| 0411 Due to other governments | - | - | - |
| 0412 Due to primary government | - | - | - |
| 0413 Due to component units | - | - | - |
| 0420 Accounts payable | 967,400 | 3,799 | 971,199 |
| 0430 Contracts payable | - | - | - |
| 0440 Current portion of long-term debt | 2,325,000 | - | 2,325,000 |
| 0450 Short-term payables | - | - | - |
| 0461 Accrued salaries and benefits | 1,474,666 | - | 1,474,666 |
| 0462 Payroll deductions and withholdings | 350,330 | - | 350,330 |
| 0470 Advances from other funds | - | - | - |
| 0480 Deferred revenues | - | - | - |
| 0490 Other current liabilities | 758,786 | - | 758,786 |
| XXXX Total current liabilities | 5,696,823 | 183,158 | 5,879,981 |
| Noncurrent Liabilities | | | |
| 0510 Bonds payable | 24,710,000 | - | 24,710,000 |
| 0520 Extended term financing agreements | - | - | - |
| 0530 Lease purchase obligations | - | - | - |
| 0540 Long-term portion of compensated absences | 777,725 | - | 777,725 |
| 0550 Authority lease obligations | - | - | - |
| 0590 Other long-term liabilities | - | - | - |
| XXXX Total noncurrent liabilities | 25,487,725 | - | 25,487,725 |
| XXXX Total liabilities | 31,184,548 | 183,158 | 31,367,706 |
| Net Assets | | | |
| 0791 Invested in capital assets net of debt | 15,063,446 | - | 15,063,446 |
| Restricted for | | | |
| 0792 Retirement of long-term debt | 500 | - | 500 |
| 0793 Capital projects | - | - | - |
| 0794 Permanent endowment - expendable | - | - | - |
| 0795 Permanent endowment - nonexpendable | - | - | - |
| 0798 Other | - | - | - |
| 0799 Unrestricted (deficit) | 11,708,565 | 242,166 | 11,950,731 |
| 0790 Total net assets | 26,772,511 | 242,166 | 27,014,677 |
| XXXX Total liabilities and net assets | \$ 57,957,059 | \$ 425,324 | \$ 58,382,383 |

The accompanying notes are an integral part of these statements.

Warren County School District
Statement of Activities
June 30, 2008

| Functions/Programs | | 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 |
| Expenses | | | | | | | |
| Governmental Activities: | | | | | | | |
| Instruction: | | | | | | | |
| 1100 | Regular instruction | \$ 29,794,735 | \$ 24,294 | \$ 4,258,824 | \$ - | \$ (25,511,617) | \$ (25,511,617) |
| 1200 | Special instruction | 9,228,731 | - | 6,387,802 | - | (2,840,929) | (2,840,929) |
| 1300 | Vocational instruction | 1,420,116 | - | 402,210 | - | (1,017,906) | (1,017,906) |
| 1400 | Other instructional programs | 529,033 | - | 604,935 | - | 75,902 | 75,902 |
| 1600 | Adult education programs | - | - | - | - | - | - |
| Total instructional services | | 40,972,615 | 24,294 | 11,653,771 | - | (29,294,550) | (29,294,550) |
| Support services: | | | | | | | |
| 2100 | Pupil personnel | 1,250,272 | - | 138,163 | - | (1,112,109) | (1,112,109) |
| 2200 | Instructional staff | 2,246,437 | - | 218,241 | - | (2,028,196) | (2,028,196) |
| 2300 | Administration | 4,105,192 | - | 208,875 | - | (3,896,317) | (3,896,317) |
| 2400 | Pupil health | 469,961 | - | 134,173 | - | (335,788) | (335,788) |
| 2500 | Business services | 699,157 | - | 40,524 | - | (658,633) | (658,633) |
| 2600 | Operation and maintenance of plant services | 6,087,921 | 15,230 | 172,899 | - | (5,899,792) | (5,899,792) |
| 2700 | Student transportation | 5,188,823 | - | 3,016,399 | - | (2,172,424) | (2,172,424) |
| 2800 | Central | 165,741 | - | 130,550 | - | (35,191) | (35,191) |
| 2900 | Other support services | 319,887 | - | - | - | (319,887) | (319,887) |
| Total support services | | 20,533,391 | 15,230 | 4,059,824 | - | (16,458,337) | (16,458,337) |
| Non-instructional services: | | | | | | | |
| 3200 | Student activities | 1,160,154 | - | 32,144 | - | (1,128,010) | (1,128,010) |
| 3300 | Community services (excl. 3340) | 20,367 | - | 7,151 | - | (13,216) | (13,216) |
| 3400 | Scholarships and awards | - | - | - | - | - | - |
| 5100-85 | Interest on long-term debt | 955,051 | - | 747,074 | - | (207,977) | (207,977) |
| 0750 | Unallocated depreciation expense | - | - | - | - | - | - |
| Total non-instructional services | | 2,135,572 | - | 786,369 | - | (1,349,203) | (1,349,203) |
| Total governmental activities | | 63,641,578 | 39,524 | 16,499,964 | - | (47,102,090) | (47,102,090) |
| Business-type activities: | | | | | | | |
| 3100 | Food service | 1,942,987 | 820,602 | 1,012,265 | - | - | (110,120) |
| Total primary government | | \$ 65,584,565 | \$ 860,126 | \$ 17,512,229 | \$ - | (47,102,090) | (47,212,210) |
| General revenues | | | | | | | |
| Taxes: | | | | | | | |
| 6111 | Property taxes, levied for general purposes, net | | | | 24,739,817 | - | 24,739,817 |
| | Taxes levied for specific purposes | | | | - | - | - |
| | Grants, subsidies and contributions not restricted | | | | 23,674,010 | - | 23,674,010 |
| 9640, 9611 | Receipts from member districts | | | | - | - | - |
| 6500 | Investment earnings | | | | 606,593 | 2,194 | 608,787 |
| | Miscellaneous income | | | | 634,996 | (1,556) | 633,440 |
| 8888 | Special items | | | | - | - | - |
| 8889 | Extraordinary items | | | | - | - | - |
| | Transfers | | | | (97,543) | 97,543 | - |
| Total general revenues, special items, extraordinary items and transfers | | | | | 49,557,873 | 98,181 | 49,656,054 |
| Change in net assets | | | | | 2,455,783 | (11,939) | 2,443,844 |
| Net assets-beginning | | | | | 24,316,728 | 254,105 | 24,570,833 |
| Net assets-ending | | | | | \$ 26,772,511 | \$ 242,166 | \$ 27,014,677 |

The accompanying notes are an integral part of these statements.

Warren County School District
Balance Sheet
Governmental Funds
June 30, 2008

| | General Fund | Capital Reserve | Capital Projects | Debt Service | Non Major Funds | Total Gov't Funds |
|---|----------------------|---------------------|------------------|---------------|------------------|----------------------|
| Assets | | | | | | |
| 0100 Cash and cash equivalents | \$ 3,182,063 | \$ 3,204,287 | \$ 5,147 | \$ 500 | \$ 13,522 | \$ 6,405,519 |
| 0110 Investments | 4,032,252 | - | - | - | - | 4,032,252 |
| 0120 Taxes receivable (net) | 3,210,224 | - | - | - | - | 3,210,224 |
| 0130 Due from other funds | 215,464 | - | - | - | - | 215,464 |
| 0141 Due from other governments | 926,530 | - | - | - | - | 926,530 |
| 0146 Due from primary government | - | - | - | - | - | - |
| 0147 Due from component units | - | - | - | - | - | - |
| 0150 Other receivables | 99,452 | - | - | - | - | 99,452 |
| 0160 Advances to other funds | - | - | - | - | - | - |
| 0170 Inventories | - | - | - | - | - | - |
| 0180 Prepaid expenses | 671,669 | - | - | - | - | 671,669 |
| 0190 Other current assets | 253,084 | - | - | - | - | 253,084 |
| XXXX Total assets | <u>\$ 12,590,738</u> | <u>\$ 3,204,287</u> | <u>\$ 5,147</u> | <u>\$ 500</u> | <u>\$ 13,522</u> | <u>\$ 15,814,194</u> |
| Liabilities and Fund Balance | | | | | | |
| Liabilities | | | | | | |
| 0400 Due to other funds | \$ - | \$ 31,234 | \$ - | \$ - | \$ 4,871 | \$ 36,105 |
| 0411 Due to other governments | - | - | - | - | - | - |
| 0412 Due to primary government | - | - | - | - | - | - |
| 0413 Due to component units | - | - | - | - | - | - |
| 0420 Accounts payable | 929,340 | 34,617 | - | - | 3,443 | 967,400 |
| 0430 Contracts payable | - | - | - | - | - | - |
| 0440 Current portion of long-term debt | - | - | - | - | - | - |
| 0450 Short-term payables | - | - | - | - | - | - |
| 0461 Accrued salaries and benefits | 1,469,458 | - | - | - | 5,208 | 1,474,666 |
| 0462 Payroll deductions and withholdings | 350,330 | - | - | - | - | 350,330 |
| 0470 Advances from other funds | - | - | - | - | - | - |
| 0480 Deferred revenues | 2,500,937 | - | - | - | - | 2,500,937 |
| 0490 Other current liabilities | 147,835 | - | - | - | - | 147,835 |
| XXXX Total liabilities | <u>5,397,900</u> | <u>65,851</u> | <u>-</u> | <u>-</u> | <u>13,522</u> | <u>5,477,273</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 | - | - | 5,147 | - | - | 5,147 |
| 0795 Reserve for other (explain) | - | - | - | - | - | - |
| 0760 Specific fund balance reserves | - | - | - | - | - | - |
| 0771 Unreserved - designated | 1,995,198 | 3,138,436 | - | - | - | 5,133,634 |
| 0772 Unreserved - undesignated | 5,197,640 | - | - | - | - | 5,197,640 |
| XXXX Total fund balances | <u>7,192,838</u> | <u>3,138,436</u> | <u>5,147</u> | <u>500</u> | <u>-</u> | <u>10,336,921</u> |
| XXXX Total liabilities and fund balances | <u>\$ 12,590,738</u> | <u>\$ 3,204,287</u> | <u>\$ 5,147</u> | <u>\$ 500</u> | <u>\$ 13,522</u> | <u>\$ 15,814,194</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, 2008

Total fund balances - governmental funds \$ 10,336,921

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 \$83,073,153, and the accumulated depreciation is \$41,076,535 41,996,618

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. 2,500,937

Allowance for doubtful accounts - taxes receivable (121,462)

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 | \$ (27,035,000) | |
| Deferred amount on refunding (net) | 64,939 | |
| Bond discount (net) | 31,742 | |
| Accrued interest on the bonds | (275,628) | |
| Compensated absences | (1,113,049) | (28,326,996) |

Other:

| | |
|---|---------|
| Earned income tax receivable from self-employed individuals | 294,180 |
| Accrued interest receivable | 27,446 |
| Rental subsidy receivable | 64,867 |

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES \$ 26,772,511

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
Ended June 30, 2008

| | General Fund | Capital Reserve | Capital Projects | Debt Service |
|---|---------------|-----------------|------------------|--------------|
| Revenues | | | | |
| 6000 Local sources | \$ 25,530,160 | \$ 494,003 | \$ 199 | \$ - |
| 7000 State sources | 37,193,423 | - | - | - |
| 8000 Federal sources | 2,964,218 | - | - | - |
| 0010 Total revenues | 65,687,801 | 494,003 | 199 | - |
| Expenditures | | | | |
| 1000 Instruction | 39,119,364 | - | - | - |
| 2000 Support services | 20,222,524 | - | - | - |
| 3000 NonInstructional services | 255,673 | - | - | 2,410 |
| 4000 Capital outlay | - | 1,003,622 | - | - |
| 5110 Debt service (principal and interest) | - | - | - | 3,229,310 |
| 0020 Total expenditures | 59,597,561 | 1,003,622 | - | 3,231,720 |
| Excess (deficiency) of revenues over expenditures | 6,090,240 | (509,619) | 199 | (3,231,720) |
| Other Financing Sources (Uses) | | | | |
| 9110 Bond proceeds | - | - | - | - |
| 9120 Refunding bond proceeds | - | - | - | - |
| 9200 Proceeds from extended term financing | - | - | - | - |
| 9300 Interfund transfers | - | 1,250,000 | - | 3,231,720 |
| 9400 Sale/compensation for fixed assets | - | 104,950 | - | - |
| 9500 Refunds of prior years expenditures | - | - | - | - |
| 9600 Operating transfers in (other LEAs) | - | - | - | - |
| 9710 Operating transfers from component units | - | - | - | - |
| 9720 Operating transfers from primary government | - | - | - | - |
| 5120 Debt service (payment to refunded bond escrow agent) | - | - | - | - |
| 5130 Refunds of prior year receipts | (224,680) | - | - | - |
| 5200 Operating transfers out | (5,433,281) | - | - | - |
| 5310 Operating transfers to component unit | - | - | - | - |
| 5320 Operating transfers to primary government | - | - | - | - |
| XXXX Total other financing sources (uses) | (5,657,961) | 1,354,950 | - | 3,231,720 |
| Special/Extraordinary Items | | | | |
| 8888 Special items | - | - | - | - |
| 8889 Extraordinary items | - | - | - | - |
| Net change in fund balances | 432,279 | 845,331 | 199 | - |
| 0040 Fund balance - July 1, 2007 | 6,760,559 | 2,293,105 | 4,948 | 500 |
| 0050 Prior period adjustment | - | - | - | - |
| 0700 Fund balance - June 30, 2008 | \$ 7,192,838 | \$ 3,138,436 | \$ 5,147 | \$ 500 |

The accompanying notes are an integral part of these statements.

| Non Major Funds | Total Gov. Funds |
|--------------------|---------------------|
| \$ 48,795 | \$ 26,073,157 |
| 21,013 | 37,214,436 |
| - | 2,964,218 |
| 69,808 | 66,251,811 |
| - | 39,119,364 |
| - | 20,222,524 |
| 923,826 | 1,181,909 |
| - | 1,003,622 |
| - | 3,229,310 |
| 923,826 | 64,756,729 |
| (854,018) | 1,495,082 |
| - | - |
| - | - |
| - | - |
| 854,018 | 5,335,738 |
| - | 104,950 |
| - | - |
| - | - |
| - | - |
| - | - |
| - | (224,680) |
| - | (5,433,281) |
| - | - |
| - | - |
| 854,018 | (217,273) |
| - | - |
| - | - |
| - | 1,277,809 |
| - | 9,059,112 |
| - | - |
| \$ - | \$ 10,336,921 |

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, 2008

| | |
|--|--------------|
| Total net change in fund balances - governmental funds | \$ 1,277,809 |
|--|--------------|

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 | \$ (2,734,386) | |
| Capital outlays | <u>1,871,963</u> | (862,423) |

| | |
|--|---------|
| The proceeds from the sale of fixed assets are recorded as revenue in the governmental funds. However, in the statement of activities, only the gain on the sale is recognized as revenue. | (4,015) |
|--|---------|

| | |
|--|----------|
| Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred tax revenues decreased by this amount this year. | (30,314) |
|--|----------|

| | |
|--|-----------|
| Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. | 2,260,000 |
|--|-----------|

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

Other:

| | |
|--|---------------|
| Change in self-employment taxes receivable | (143,147) |
| Change in accrued interest receivable | 27,446 |
| Change in rental reimbursement receivable | (4,679) |
| Change in allowance for doubtful accounts | (7,145) |
| Change in compensated absences | (64,749) |
| Change in accrued interest payable | <u>16,668</u> |

| | |
|---|---------------------|
| Change in net assets of governmental activities | <u>\$ 2,455,783</u> |
|---|---------------------|

The accompanying notes are an integral part of these statements.

Warren County School District
Statement of Revenue, Expenditures and Changes in Fund Balances, Budget and Actual
General Fund
For the Year Ended June 30, 2008

| | | Budgeted Amounts | | Actual | Variance with |
|---------------------------------------|--|---------------------|---------------------|---------------------|--|
| | | Original | Final | (Budgetary Basis) | Final Budget Positive (Negative) |
| Revenues | | | | | |
| 6000 | Local revenues | \$ 25,896,072 | \$ 25,896,072 | \$ 25,530,160 | \$ (365,912) |
| 7000 | State program revenues | 36,888,765 | 37,433,827 | 37,193,423 | (240,404) |
| 8000 | Federal program revenues | 2,953,845 | 3,185,487 | 2,964,218 | (221,269) |
| | Total revenues | 65,738,682 | 66,515,386 | 65,687,801 | (827,585) |
| Expenditures | | | | | |
| 1100 | Regular programs | 28,395,793 | 30,348,579 | 28,559,366 | 1,789,213 |
| 1200 | Special programs | 8,616,943 | 8,511,288 | 8,687,528 | (176,240) |
| 1300 | Vocational programs | 1,344,313 | 1,346,312 | 1,343,521 | 2,791 |
| 1400 | Other instructional programs | 1,711,013 | 433,557 | 528,949 | (95,392) |
| 1600 | Adult education programs | - | - | - | - |
| 1700 | Community/junior college ed programs | - | - | - | - |
| 2100 | Pupil personnel services | 1,264,721 | 1,263,321 | 1,245,615 | 17,706 |
| 2200 | Instructional staff services | 2,765,371 | 3,035,075 | 2,434,908 | 600,167 |
| 2300 | Administrative services | 3,984,044 | 3,959,824 | 3,811,295 | 148,529 |
| 2400 | Pupil health | 464,867 | 464,868 | 469,307 | (4,439) |
| 2500 | Business services | 692,028 | 701,479 | 697,379 | 4,100 |
| 2600 | Operation and maintenance of plant services | 6,435,816 | 6,484,231 | 6,119,087 | 365,144 |
| 2700 | Student transportation services | 4,770,262 | 4,784,878 | 5,193,221 | (408,343) |
| 2800 | Central and other support services | 271,511 | 282,871 | 251,712 | 31,159 |
| 3100 | Food services | - | - | - | - |
| 3200 | Student activities | 234,708 | 234,708 | 235,306 | (598) |
| 3300 | Community services | 10,714 | 13,496 | 20,367 | (6,871) |
| 3400 | Scholarships and awards | - | - | - | - |
| 4000 | Facilities acquisition and construction | - | - | - | - |
| 5110 | Debt service | 3,229,310 | 3,229,310 | - | 3,229,310 |
| | Total expenditures | 64,191,414 | 65,093,797 | 59,597,561 | 5,496,236 |
| | Excess (deficiency) of revenues over expenditures | 1,547,268 | 1,421,589 | 6,090,240 | 4,668,651 |
| Other Financing Sources (Uses) | | | | | |
| 9100 | Sale of bonds | - | - | - | - |
| 9200 | Proceeds from extended term financing | - | - | - | - |
| 9300 | Interfund transfers | - | - | - | - |
| 9400 | Sale/compensation for fixed assets | 100,000 | 100,000 | - | (100,000) |
| 9500 | Refunds of prior years expenditures | - | - | - | - |
| 9700 | Operating transfers from Component units | - | - | - | - |
| 5120 | Debt service - refunded bond issues | - | - | - | - |
| 5130 | Refunds of prior years receipts | - | - | (224,680) | (224,680) |
| 5200 | Fund transfers | (2,296,573) | (2,267,758) | (5,433,281) | (3,165,523) |
| 5300 | Transfers to component units | - | - | - | - |
| 5900 | Budgetary reserve | (627,275) | (586,011) | - | 586,011 |
| | Total other financing sources (uses) | (2,823,848) | (2,753,769) | (5,657,961) | (2,904,192) |
| 8888 | Special items | - | - | - | - |
| 8889 | Extraordinary items | - | - | - | - |
| | Net change in fund balances | (1,276,580) | (1,332,180) | 432,279 | 1,764,459 |
| 0040 | Fund balance--July 1, 2007 | 6,760,559 | 6,760,559 | 6,760,559 | - |
| 0050 | Change in Inv/RS Equity Trans/Prior Yr Adj | - | - | - | - |
| XXXX | Fund balance--June 30, 2008 | \$ 5,483,979 | \$ 5,428,379 | \$ 7,192,838 | \$ 1,764,459 |

The accompanying notes are an integral part of these statements.

| Budget to GAAP Difference | | Actual Amounts GAAP basis | |
|---------------------------------|-------------|---------------------------------|------------|
| \$ | 192,684 | \$ | 25,337,476 |
| | 4,679 | | 37,188,744 |
| | - | | 2,964,218 |
| | 197,363 | | 65,490,438 |
| | (1,235,369) | | 29,794,735 |
| | (541,203) | | 9,228,731 |
| | (76,595) | | 1,420,116 |
| | (84) | | 529,033 |
| | - | | - |
| | - | | - |
| | (4,657) | | 1,250,272 |
| | 188,471 | | 2,246,437 |
| | (293,897) | | 4,105,192 |
| | (654) | | 469,961 |
| | (1,778) | | 699,157 |
| | 36,491 | | 6,082,596 |
| | 4,398 | | 5,188,823 |
| | (9,237) | | 260,949 |
| | - | | - |
| | (1,022) | | 236,328 |
| | - | | 20,367 |
| | - | | - |
| | - | | - |
| | - | | - |
| | (1,935,136) | | 61,532,697 |
| | 2,132,499 | | 3,957,741 |
| | - | | - |
| | - | | - |
| | - | | - |
| | (100,935) | | 100,935 |
| | - | | - |
| | - | | - |
| | - | | - |
| | (224,680) | | - |
| | (5,433,281) | | - |
| | - | | - |
| | - | | - |
| | (5,758,896) | | 100,935 |
| | - | | - |
| | - | | - |
| | (3,626,397) | | 4,058,676 |
| | (199,319) | | 6,959,878 |
| | 488,677 | | (488,677) |
| \$ | (3,337,039) | \$ | 10,529,877 |

Warren County School District
Statement of Net Assets
Proprietary Funds
June 30, 2008

| | Food Service | Internal Service |
|--|-------------------|------------------|
| Assets | | |
| Current Assets | | |
| 0100 Cash and cash equivalents | \$ 44,592 | \$ - |
| 0110 Investments | - | - |
| 0130 Due from other funds | - | - |
| 0141 Due from other governments | 118,713 | - |
| 0146 Due from primary government | - | - |
| 0147 Due from component units | - | - |
| 0150 Other receivables | 8,896 | - |
| 0160 Advances to other funds | - | - |
| 0170 Inventories | 6,819 | - |
| 0180 Prepaid expenses | - | - |
| 0190 Other current assets | - | - |
| XXXX Total current assets | <u>179,020</u> | <u>-</u> |
| Noncurrent Assets | | |
| 0108 Restricted cash and equivalents | - | - |
| 0210 Land and site improvements | - | - |
| 0220 Building and building improvements(net) | - | - |
| 0230 Machinery and equipment (net) | 246,304 | - |
| 0250 Construction in progress | - | - |
| 0260 Long-term prepayments | - | - |
| XXXX Total noncurrent assets | <u>246,304</u> | <u>-</u> |
| XXXX Total assets | <u>\$ 425,324</u> | <u>\$ -</u> |
| Liabilities | | |
| Current Liabilities | | |
| 0400 Due to other funds | \$ 179,359 | \$ - |
| 0411 Due to other governments | - | - |
| 0413 Due to component units | - | - |
| 0420 Accounts payable | 3,799 | - |
| 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 | <u>183,158</u> | <u>-</u> |
| 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 | <u>-</u> | <u>-</u> |
| XXXX Total liabilities | <u>183,158</u> | <u>-</u> |
| Net Assets | | |
| 0791 Invested in capital assets net of debt | - | - |
| 0798 Restricted for legal purposes | - | - |
| 0799 Unrestricted | 242,166 | - |
| 0790 Total net assets | <u>242,166</u> | <u>-</u> |
| XXXX Total liabilities and net assets | <u>\$ 425,324</u> | <u>\$ -</u> |

The accompanying notes are an integral part of these statements.

Warren County School District
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2008

| | Food Service | Internal Service |
|---|--------------|------------------|
| Operating Revenues: | | |
| 6600 Food service revenue | \$ 820,602 | \$ - |
| 6900 Charges for services | - | - |
| 6999 Other operating revenues | (1,556) | - |
| 0010 Total operating revenues | 819,046 | - |
| Operating Expenses: | | |
| 0100 Salaries | 527,355 | - |
| 0200 Employee benefits | 265,749 | - |
| 0300 Purchased professional and technical service | - | - |
| 0400 Purchased property service | - | - |
| 0500 Other purchased service | 995,340 | - |
| 0600 Supplies | - | - |
| 0700 Depreciation | 32,727 | - |
| 0810 Dues and fees | - | - |
| 0820 Claims and judgments | - | - |
| 0890 Other operating expenditures | 121,816 | - |
| 0020 Total operating expenses | 1,942,987 | - |
| 0030 Operating income (loss) | (1,123,941) | - |
| Nonoperating Revenues (Expenses) | | |
| 6500 Earnings on investments | 2,194 | - |
| 6920 Contributions and donations | - | - |
| 6930 Gain/loss on sale of fixed assets | - | - |
| 7000 State sources | 122,706 | - |
| 8000 Federal sources | 889,559 | - |
| 9500 Refunds of prior year expenditures | - | - |
| 0820 Claims and judgments | - | - |
| 0830 Interest expenses | - | - |
| 0040 Total nonoperating revenues (expenses) | 1,014,459 | - |
| Income (loss) before contributions | (109,482) | - |
| 6920 Capital contributions | - | - |
| 9998 Transfers from (to) component units | - | - |
| 9999 Transfers in (out) | 97,543 | - |
| Change in net assets | (11,939) | - |
| XXXX Total net assets - July 1, 2007 | 254,105 | - |
| 0057 Accounting changes | - | - |
| 0061 Prior period adjustment | - | - |
| XXXX Total net assets - June 30, 2008 | \$ 242,166 | \$ - |

The accompanying notes are an integral part of these statements.

Warren County School District
Combined Statement of Cash Flows
Proprietary Fund Types
June 30, 2008

| | Food Service | Internal Service |
|--|--------------|------------------|
| Cash Flows From Operating Activities | | |
| 9937 Cash received from users | \$ 814,127 | \$ - |
| 9938 Cash received from assessments made to other funds | - | - |
| 9939 Cash received from earnings on investments | - | - |
| 9940 Cash received from other operating revenue | (1,556) | - |
| 9941 Cash payments to employees for services | (793,104) | - |
| 9942 Cash payments for insurance claims | - | - |
| 9943 Cash payments to suppliers for goods and services | (1,633,063) | - |
| 9944 Cash payments for other operating expenses | (121,816) | - |
| Net cash provided by (used for) operating activities | (1,735,412) | - |
| Cash Flows From Non-Capital Financing Activities | | |
| 6000 Local sources | - | - |
| 7000 State sources | 120,764 | - |
| 8000 Federal sources | 887,579 | - |
| 9917 Notes and loans received | - | - |
| 9918 Interest paid on notes/loans (5100-830) | - | - |
| 9919 Operating transfers in (out)/ residual equity | 97,543 | - |
| 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 | 1,105,886 | - |
| Cash Flows From Capital and Related Financing Activities | | |
| 4000 Facilities acquisition/construction/imp. serv | (119,805) | - |
| 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 | (119,805) | - |
| Cash Flows From Investing Activities | | |
| 6500 Earnings on investments | 2,194 | - |
| 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 | 2,194 | - |
| Net increase (decrease) in cash and cash flows | (747,137) | - |
| 9935 Cash and cash equivalents beginning of year | 791,729 | - |
| 9936 Cash and cash equivalents at year end | \$ 44,592 | \$ - |

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, 2008

| | Food Service | Internal Service |
|--|-----------------------|------------------|
| 9900 Operating income (loss) | \$ (1,123,941) | \$ - |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for): | | |
| 9901 Depreciation and net amortization | 32,727 | - |
| 9902 Provision for uncollectible accounts | - | - |
| 9903 Write-in | - | - |
| 9904 (Increase) decrease in accounts receivable | (6,475) | - |
| 9905 (Increase) decrease in advances to other funds | - | - |
| 9906 (Increase) decrease in inventories | 13,641 | - |
| 9907 (Increase) decrease in prepaid expenses | - | - |
| 9908 (Increase) decrease in other current assets | - | - |
| 9909 Increase (decrease) in accounts payable | (33,456) | - |
| 9910 Increase (decrease) in accrued salaries and benefits | - | - |
| 9911 Increase (decrease) in payroll deductions/withholding | - | - |
| 9912 Increase (decrease) in advances from other funds | (617,908) | - |
| 9913 Increase (decrease) in deferred revenue | - | - |
| 9914 Increase (decrease) in other current liabilities | - | - |
| Total adjustments | (611,471) | - |
| Cash provided by (used for) total | <u>\$ (1,735,412)</u> | <u>\$ -</u> |

The accompanying notes are an integral part of these statements.

Warren County School District
Statement of Net Assets
Fiduciary Funds
June 30, 2008

| | | Agency Funds | | | |
|--------------------|---|-------------------|---------------------|-------------------|---------------------|
| | | Student | Earned Income | | |
| | | Activities | Tax Office | Trust Funds | Total |
| Assets | | | | | |
| 0100 | Cash and cash equivalents | \$ 154,325 | \$ 153,955 | \$ 35,116 | \$ 343,396 |
| 0110 | Investments | - | 979,954 | 206,002 | 1,185,956 |
| 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>\$ 154,325</u> | <u>\$ 1,133,909</u> | <u>\$ 241,118</u> | <u>\$ 1,529,352</u> |
| Liabilities | | | | | |
| 0420 | Accounts payable | \$ 154,325 | \$ 1,133,909 | \$ - | \$ 1,288,234 |
| 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>154,325</u> | <u>1,133,909</u> | <u>-</u> | <u>1,288,234</u> |
| Net Assets | | | | | |
| 0791 | Invested in capital assets net of debt | - | - | - | - |
| 0798 | Restricted for legal purposes | - | - | 241,118 | 241,118 |
| 0799 | Unrestricted | - | - | - | - |
| XXXX | Total net assets | <u>-</u> | <u>-</u> | <u>241,118</u> | <u>241,118</u> |
| XXXX | Total liabilities and net assets | <u>\$ 154,325</u> | <u>\$ 1,133,909</u> | <u>\$ 241,118</u> | <u>\$ 1,529,352</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, 2008

| | <u>Trust Funds</u> |
|--------------------------------|--------------------------------|
| Additions | |
| Gifts and contributions | \$ - |
| Earnings/(loss) on investments | (8,190) |
| Deductions | |
| Scholarships awarded | <u>(14,384)</u> |
| Change in net assets | (22,574) |
| Net assets-July 1, 2007 | <u>263,692</u> |
| Net assets-June 30, 2008 | <u><u>\$ 241,118</u></u> |

The accompanying notes are an integral part of these statements.

Warren County School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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, 2008

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, 2008

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, 2008

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, 2008

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 \$20,974,562 on July 1, 2007 based on a gross assessed valuation of \$455,968,730 at 46.0 mills. Taxes are collectible through May 1 each year. Subsequent to that date taxes are turned over to the Warren County Tax Claim Bureau and the property is lien.

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, 2008

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. 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.

9. Investments

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

Warren County School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

10. 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.

11. 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 |

12. 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.

Warren County School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

13. 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 \$260,046 for unused vacation pay and \$853,003 for accumulated sick pay.

14. 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.

15. 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. Effective October 23, 2008 and thru December 31, 2009, the federally insured limit increased to \$250,000. 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.

Warren County School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

16. 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.

17. 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, 2008 the rate of employer contribution was 7.13 percent of covered payroll. The 7.13 percent rate is composed of a pension contribution rate of 6.44 percent for pension benefits and .69 percent for healthcare insurance premium assistance. The School District's contributions to the system for the years ending June 30, 2008, 2007 and 2006 were \$2,159,408, \$1,858,833 and \$1,368,175, respectively, equal to the required contributions for each year.

Warren County School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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.

1. 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, 2008, the bank balance of the District's deposits that are exposed to custodial credit risk is \$9,647,524 and their carrying amount is \$7,468,315. These amounts are uninsured. However, they are collateralized with securities held by the trust department or agent but not in the District's name.

2. Investments

As of June 30, 2008, the District had the following investments:

| <u>Investment</u> | <u>Maturities</u> | <u>Fair Value</u> |
|--|-------------------|--------------------|
| Certificates of Deposit | N/A | \$ 582,000 |
| Mutual Funds | N/A | 206,002 |
| Merrill Lynch WCMA Money Fund | N/A | 173,931 |
| PNC Bank BlackRock Liquidity Fund T-Fund | N/A | 979,954 |
| PA Local Government Investment Trust (PLGIT) | N/A | 29,563 |
| U.S. Treasury Bonds | 20-29 years | 266,212 |
| Federal Home Loan Mortgage Corporation (FHLMC) | 5-30 years | 1,126,896 |
| Federal National Mortgage Association (FNMA) | 5-30 years | <u>1,853,650</u> |
| | | <u>\$5,218,208</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.

Warren County School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE B - NON-POOLED CASH AND INVESTMENTS - Continued

Credit Risk - The District has no investment policy that limits its choices to certain credit ratings. 33% of the District's investments in certificates of deposit have been rated BBB, 17% have been rated BB and the remaining 50% have not been rated. Investments in BlackRock Liquidity Funds have been rated AAAs by Standard & Poor's, AAA/V1 by Fitch Ratings and Aaa by Moody's Investors Service. Investments in PLGIT have been rated AAAs by Standard & Poor's. Investments in FHLMC and FNMA notes have been rated AAA by Standard & Poor's, Fitch Ratings, and Moody's Investors Service. Investments in FHLMC and FNMA mortgage backed certificates have not been rated. However, Standard & Poor's risk to the government rating for FNMA is A+, Moody's bank financial strength rating for FHLMC and FNMA is E+. FHLMC and FNMA unsecured debt has been rated AAA/A-1 by Standard & Poor's, AAA by Fitch Ratings and Aaa by Moody's Investors Service. Investments in Merrill Lynch money market funds have not been rated.

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, 2008, \$5,044,277 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. More than 5 percent of the District's investments are in FNMA, FHLMC and PNC Bank money market funds. These investments are 35.52%, 21.60%, and 18.78%, respectively, of the District's investments.

NOTE C - TAXES RECEIVABLE

Taxes receivable consist of the following at June 30, 2008:

| | Government- Wide <u>Statements</u> | Fund <u>Statements</u> |
|---------------------------------|--|---------------------------|
| Delinquent real estate taxes | \$ 3,104,412 | \$3,104,412 |
| Delinquent per capita | 74,692 | 74,692 |
| Earned income tax | 294,180 | - |
| Realty transfer tax | 31,120 | 31,120 |
| Allowance for doubtful accounts | (<u>121,462</u>) | <u>-</u> |
| | <u>\$ 3,382,942</u> | <u>\$3,210,224</u> |

Warren County School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE C - TAXES RECEIVABLE - Continued

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, \$2,500,937 of the delinquent real estate taxes deemed not available as of June 30, 2008 has been recorded as deferred revenue on the governmental funds balance sheet.

NOTE D - INTERFUND TRANSACTIONS

Interfund receivables and payables on the fund statements at June 30, 2008 consist of the following:

| | <u>Interfund Receivable</u> | <u>Interfund Payable</u> |
|----------------------|---------------------------------|------------------------------|
| General fund | \$ 215,464 | \$ - |
| Capital reserve fund | - | 31,234 |
| Athletic fund | - | 4,871 |
| Food service fund | - | 179,359 |
| | <u>\$ 215,464</u> | <u>\$ 215,464</u> |

Interfund transfers on the fund statements at June 30, 2008 consist of the following:

| | <u>Transfer In</u> | <u>Transfer Out</u> |
|----------------------|---------------------|---------------------|
| General Fund | \$ - | \$ 5,433,281 |
| Capital Reserve Fund | 1,250,000 | - |
| Debt Service Fund | 3,231,720 | - |
| Food Service Fund | 97,543 | - |
| Athletic Fund | 854,018 | - |
| | <u>\$ 5,433,281</u> | <u>\$ 5,433,281</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 Food Service Fund and the Capital Reserve 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, 2008

NOTE E - CAPITAL ASSETS

A summary of capital asset activity during the year follows:

| | Balance June 30, 2007 | Additions | Deletions | Balance June 30, 2008 |
|---------------------------------|-----------------------------|---------------------|-------------------|-----------------------------|
| Governmental Activities | | | | |
| Land & Improvements | \$ 2,305,909 | \$ 235,630 | \$ 10,253 | \$ 2,531,286 |
| Buildings & Improvements | 59,715,680 | 306,189 | 498,129 | 59,523,740 |
| Machinery & Equipment | 20,621,657 | 879,675 | 987,529 | 20,513,803 |
| Construction-In-Progress | <u>53,857</u> | <u>594,759</u> | <u>144,292</u> | <u>504,324</u> |
| Total Capital Assets | <u>82,697,103</u> | <u>2,016,253</u> | <u>1,640,203</u> | <u>83,073,153</u> |
| Less: Accumulated Depreciation: | | | | |
| Site Improvements | \$ 1,188,753 | \$ 49,704 | \$ 7,653 | \$ 1,230,804 |
| Buildings & Improvements | 24,249,422 | 1,221,773 | 498,129 | 24,973,066 |
| Machinery & Equipment | <u>14,395,870</u> | <u>1,462,909</u> | <u>986,114</u> | <u>14,872,665</u> |
| Total Accumulated Depreciation | <u>39,834,045</u> | <u>2,734,386</u> | <u>1,491,896</u> | <u>41,076,535</u> |
| Capital Assets, Net | <u>\$ 42,863,058</u> | <u>(\$ 718,133)</u> | <u>\$ 148,307</u> | <u>\$ 41,996,618</u> |
| Business-Type Activities | | | | |
| Equipment | \$ 805,576 | \$ 119,805 | \$ - | \$ 925,381 |
| Less: Accumulated Depreciation | <u>646,351</u> | <u>32,726</u> | <u>-</u> | <u>679,077</u> |
| Capital Assets, Net | <u>\$ 159,225</u> | <u>\$ 87,079</u> | <u>\$ -</u> | <u>\$ 246,304</u> |

NOTE F - OTHER CURRENT LIABILITIES

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

| | |
|---|-------------------|
| Accrued interest payable | \$ 276,628 |
| Current portion of compensated absences | 335,323 |
| Retirees prepaid health insurance | <u>147,835</u> |
| | <u>\$ 759,786</u> |

Warren County School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE G - NONCURRENT LIABILITIES

1. General Obligation Bonds

The General Obligation Bonds consist of the following as of June 30, 2008:

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 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.

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 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 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.

2. Lease Obligations

The District leases its office space under a lease agreement expiring in 2008. The District has the option of renewing the lease annually and is expected to do so in future years. The terms of the lease call for annual rental payments of \$1 and monthly utility charges of \$6,708.

The changes in noncurrent liabilities for the year ended June 30, 2008 consist of the following:

Warren County School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE G - NONCURRENT LIABILITIES - Continued

| | Balance at June 30, 2007 | Increases | Decreases | Balance at June 30, 2008 | Due in One Year |
|--------------------|--------------------------------|-------------------|---------------------|--------------------------------|-----------------------|
| General Obligation | | | | | |
| Bonds, Series of | | | | | |
| 2001 | \$ 5,055,000 | \$ - | \$ 640,000 | \$ 4,415,000 | \$ 670,000 |
| 2002 | 8,410,000 | - | 645,000 | 7,765,000 | 665,000 |
| 2003 | 9,030,000 | - | 410,000 | 8,620,000 | 420,000 |
| 2004 | <u>6,800,000</u> | <u>-</u> | <u>565,000</u> | <u>6,235,000</u> | <u>570,000</u> |
| | 29,295,000 | - | 2,260,000 | 27,035,000 | 2,325,000 |
| Compensated | | | | | |
| Absences | | | | | |
| Sick pay | \$ 788,019 | \$ 130,277 | \$ 65,294 | \$ 853,002 | \$ 86,171 |
| Vacation pay | <u>260,280</u> | <u>266,092</u> | <u>266,326</u> | <u>260,046</u> | <u>249,152</u> |
| | <u>1,048,299</u> | <u>396,369</u> | <u>331,620</u> | <u>1,113,048</u> | <u>335,323</u> |
| | 30,343,299 | 396,369 | 2,591,620 | 28,148,048 | <u>\$2,660,323</u> |
| Less: Current | | | | | |
| Portion | <u>2,678,768</u> | <u>-</u> | <u>18,445</u> | <u>2,660,323</u> | |
| Total Noncurrent | | | | | |
| Liabilities | <u>\$27,664,531</u> | <u>\$ 396,369</u> | <u>\$ 2,573,175</u> | <u>\$25,487,725</u> | |

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> | | | |
| 2009 | \$ 2,325,000 | \$ 909,544 | \$ 3,234,544 |
| 2010 | 2,380,000 | 842,369 | 3,222,369 |
| 2011 | 2,465,000 | 768,433 | 3,233,433 |
| 2012 | 2,545,000 | 687,612 | 3,232,612 |
| 2013 | 2,635,000 | 599,376 | 3,234,376 |
| Thereafter | <u>14,685,000</u> | <u>2,256,389</u> | <u>16,941,389</u> |
| | <u>\$27,035,000</u> | <u>\$ 6,063,723</u> | <u>\$ 33,098,723</u> |

Warren County School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE H - DESIGNATED FUND BALANCE

The School District has designated \$1,995,198 of its unreserved fund balance at June 30, 2008. The purpose of the designation is to provide for resources available in the general fund budget for the year ended June 30, 2009 in the amount of \$995,198, to provide resources for capital projects in the amount of \$500,000 and to provide resources for school board/tax collection contingencies in the amount of \$500,000.

NOTE I - CHANGES IN AGENCY FUNDS

The changes in agency funds consist of the following:

| | Balance at June 30, <u>2007</u> | <u>Increases</u> | <u>Decreases</u> | Balance at June 30, <u>2008</u> |
|---------------------------|---------------------------------------|---------------------|---------------------|---------------------------------------|
| Tax Collection Fund | \$ 873,070 | \$ 9,436,956 | \$ 9,176,117 | \$ 1,133,909 |
| Student Activity Funds | <u>139,569</u> | <u>545,826</u> | <u>531,070</u> | <u>154,325</u> |
| | <u>\$ 1,012,639</u> | <u>\$ 9,982,782</u> | <u>\$ 9,707,187</u> | <u>\$ 1,288,234</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.

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 \$4,166,161. The total amount paid for post-retirement benefits for the year ended June 30, 2008 was \$1,096,911.

Warren County School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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

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.

NOTE M - SUBSEQUENT EVENT

Subsequent to June 30, 2008, the District approved issuance of General Obligation Bonds, Series of 2008. The proceeds of the bonds to be issued in the amount of \$10,000,000 will be used to fully refund the District's general obligation bonds, Series of 2001 and a portion of the Series of 2002

SUPPLEMENTAL INFORMATION

**WARREN COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

| GRANTOR PROGRAM TITLE | SOURCE CODE | FEDERAL CFDA NUMBER | PASS-THRU GRANTOR'S NUMBER | GRANT PERIOD BEGINNING/ ENDING DATE |
|---|------------------------|------------------------------------|---|--|
| U.S. DEPARTMENT OF EDUCATION | | | | |
| -Art Smart II | D | 84.351D | Q333511 | 10/1/03-8/31/07 |
| -Impact Aid | D | 84.041A | S041A-2008-4541 | 7/1/07-6/30/08 |
| Passed Through the PA Dept of Ed | | | | |
| -Title I | I | 84.010 | 13-07-0459 | 7/1/06-9/30/07 |
| -Title I | I | 84.010 | 13-08-0459 | 7/9/07-9/30/08 |
| -Title V Innovative Education | I | 84.298 | 11-07-0459 | 7/1/06-9/30/07 |
| -Title V Innovative Education | I | 84.298 | 11-08-0459 | 7/9/07-9/30/08 |
| -Secondary Allocations | I | 84.048 | 380-07-7074 | 8/14/06-6/30/07 |
| -Secondary Allocations | I | 84.048 | 380-08-8028 | 8/13/07-6/30/08 |
| -Title II Improving Teacher Quality | I | 84.367 | 20-07-0459 | 7/1/06-9/30/07 |
| -Title II Improving Teacher Quality | I | 84.367 | 20-08-0459 | 7/9/07-9/30/08 |
| -Drug Free School Formula | I | 84.186 | 100-08-0459 | 9/10/07-9/30/08 |
| TOTAL U.S. DEPARTMENT OF EDUCATION | | | | |
| Passed through Northwest Ti-County I.U. #5 Special Education Cluster | | | | |
| -IDEA Grant - Part B | I | 84.027 | 062-08-0005 | 7/1/07-6/30/08 |
| TOTAL MULTIPLE FUNDING | | | | |
| U.S. DEPARTMENT OF AGRICULTURE | | | | |
| Passed Thru PA Department of Ed Nutrition Cluster | | | | |
| -National School Lunch | | 10.555 | N/A | 7/1/07-6/30/08 |
| -National School Lunch | I | N/A | N/A | 7/1/07-6/30/08 |
| -National School Breakfast | | 10.553 | N/A | 7/1/07-6/30/08 |
| -National School Breakfast | I | N/A | N/A | 7/1/07-6/30/08 |
| Less: State Share | | | | |

| GRANT AMOUNT | TOTAL RECEIVED FOR THE YEAR | ACCRUED/ (DEFERRED) REVENUE AT 7/1/07 | REVENUE RECOGNIZED | EXPENDITURES | ACCRUED/ (DEFERRED) REVENUE AT 6/30/08 |
|------------------|-----------------------------------|--|-----------------------|-----------------------|---|
| \$801,102.00 | \$71,102.00 | \$68,007.62 | \$3,094.38 | \$3,094.38 | \$0.00 |
| | \$71,102.00 | \$68,007.62 | \$3,094.38 | \$3,094.38 | \$0.00 |
| \$141,897.00 | \$141,897.00 | \$0.00 | \$141,897.00 | \$141,897.00 | \$0.00 |
| | \$141,897.00 | \$0.00 | \$141,897.00 | \$141,897.00 | \$0.00 |
| \$1,074,882.00 | \$215,777.76 | \$49,985.80 | \$165,791.96 | \$165,791.96 | \$0.00 |
| \$1,356,537.00 | \$902,337.64 | \$0.00 | \$963,274.49 | \$963,274.49 | \$60,936.85 |
| | \$1,118,115.40 | \$49,985.80 | \$1,129,066.45 | \$1,129,066.45 | \$60,936.85 |
| \$11,693.00 | \$3,118.17 | \$744.86 | \$2,373.31 | \$2,373.31 | \$0.00 |
| \$11,335.00 | \$7,556.70 | \$0.00 | \$9,633.81 | \$9,633.81 | \$2,077.11 |
| | \$10,674.87 | \$744.86 | \$12,007.12 | \$12,007.12 | \$2,077.11 |
| \$94,081.00 | \$54,880.60 | \$54,880.60 | \$0.00 | \$0.00 | \$0.00 |
| \$93,135.00 | \$46,567.50 | \$0.00 | \$80,389.45 | \$80,389.45 | \$33,821.95 |
| | \$101,448.10 | \$54,880.60 | \$80,389.45 | \$80,389.45 | \$33,821.95 |
| \$354,326.00 | \$118,011.56 | \$27,823.63 | \$90,187.93 | \$90,187.93 | \$0.00 |
| \$353,918.00 | \$212,350.77 | \$0.00 | \$224,311.30 | \$224,311.30 | \$11,960.53 |
| | \$330,362.33 | \$27,823.63 | \$314,499.23 | \$314,499.23 | \$11,960.53 |
| \$25,652.00 | \$25,652.00 | \$0.00 | \$25,652.00 | \$25,652.00 | \$0.00 |
| | \$25,652.00 | \$0.00 | \$25,652.00 | \$25,652.00 | \$0.00 |
| | \$1,799,251.70 | \$201,442.51 | \$1,706,605.63 | \$1,706,605.63 | \$108,796.44 |
| \$1,056,776.00 F | \$902,133.48 | \$0.00 | \$1,056,776.00 | \$1,056,776.00 | \$154,642.52 |
| | \$902,133.48 | \$0.00 | \$1,056,776.00 | \$1,056,776.00 | \$154,642.52 |
| | \$902,133.48 | \$0.00 | \$1,056,776.00 | \$1,056,776.00 | \$154,642.52 |
| | \$14,413.64 | | | | |
| N/A | \$639,556.46 | \$81,457.10 | \$639,314.06 | \$639,314.06 | \$81,214.70 |
| N/A S | \$68,743.13 | \$7,478.26 | \$70,315.04 | \$70,315.04 | \$9,050.17 |
| N/A | \$180,931.94 | \$23,935.90 | \$183,154.18 | \$183,154.18 | \$26,158.14 |
| N/A S | \$15,557.90 | \$1,920.10 | \$15,927.89 | \$15,927.89 | \$2,290.09 |
| | \$904,789.43 | \$114,791.36 | \$908,711.17 | \$908,711.17 | \$118,713.10 |
| | (\$84,301.03) | (\$9,398.36) | (\$86,242.93) | (\$86,242.93) | (\$11,340.26) |
| | \$820,488.40 | \$105,393.00 | \$822,468.24 | \$822,468.24 | \$107,372.84 |

WARREN COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

| GRANTOR PROGRAM TITLE | SOURCE CODE | FEDERAL CFDA NUMBER | PASS-THRU GRANTOR'S NUMBER | GRANT PERIOD BEGINNING/ ENDING DATE |
|--|------------------------|------------------------------------|---|--|
| Passed thru PA Department of Agriculture Value-USDA Donated Food | I | 10.550 | N/A | 7/1/07-6/30/08 |
| Passed thru Rural Utilities Service Distance Learning & Telemedicine Grant -RUS Telecommunications | D | 10.855 | PA0714-B-16 | 9/01/06-9/01/07 |
| Passed thru Warren County Comm. Schools and Roads Cluster -Schools/Roads-Grants/State | I | 10.665 | N/A | 10/1/06-9/30/07 |

TOTAL U.S. DEPARTMENT OF AGRICULTURE

TOTAL FEDERAL AWARDS

Source Code: D Direct Funding I Indirect Funding

Funding Source: F Federal Share S State Share

| <u>GRANT AMOUNT</u> | | <u>TOTAL RECEIVED FOR THE YEAR</u> | <u>ACCRUED/ (DEFERRED) REVENUE AT 7/1/07</u> | <u>REVENUE RECOGNIZED</u> | <u>EXPENDITURES</u> | <u>ACCRUED/ (DEFERRED) REVENUE AT 6/30/08</u> |
|-------------------------|---|--|--|-------------------------------|-----------------------|---|
| N/A | F | \$67,090.77 | (\$20,460.25) | \$80,732.43 | \$80,732.43 | (\$6,818.59) |
| | | <u>\$887,579.17</u> | <u>\$84,932.75</u> | <u>\$903,200.67</u> | <u>\$903,200.67</u> | <u>\$100,554.25</u> |
| \$109,940.00 | F | \$95,526.36 | \$95,526.36 | \$0.00 | \$0.00 | \$0.00 |
| | | <u>\$95,526.36</u> | <u>\$95,526.36</u> | <u>\$0.00</u> | <u>\$0.00</u> | <u>\$0.00</u> |
| \$856,973.06 | F | \$856,973.06 | \$0.00 | \$856,973.06 | \$856,973.06 | \$0.00 |
| | | <u>\$1,840,078.59</u> | <u>\$180,459.11</u> | <u>\$1,760,173.73</u> | <u>\$1,760,173.73</u> | <u>\$100,554.25</u> |
| | | <u>\$4,541,463.77</u> | <u>\$381,901.62</u> | <u>\$4,523,555.36</u> | <u>\$4,523,555.36</u> | <u>\$363,993.21</u> |

WARREN COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2008

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 \$86,242.93 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 | \$ | 4,523,555.36 |
| less state expenditures | | <u>-</u> |
| Total Federal Financial Assistance | \$ | <u>4,523,555.36</u> |

Programs selected for testing:

| | | | |
|---|--------|----|---------------------|
| Title I | 84.010 | \$ | 1,129,066.45 |
| Schools and Roads Cluster | | | |
| Schools and Roads - Grants to States | 10.665 | | <u>856,973.06</u> |
| | | \$ | <u>1,986,039.51</u> |
| | | | |
| % of Total Federal Financial Assistance | | | <u>43.9%</u> |

Root, Spitznas & Smiley, Inc.

Certified Public Accountants

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Michael N. Barko, CPA
J. Randolph Gehrlein, CPA
James T. Scavona, CPA

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 accompanying financial statements of the 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, 2008, which collectively comprise the Warren County School District's basic financial statements and have issued our report thereon dated December 9, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Warren County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Warren County School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Warren County School District's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Warren County School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Warren County School District's financial statements that is more than inconsequential will not be prevented or detected by Warren County School District's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2008-1 and 2008-2 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However of the significant deficiencies described above, we consider item 2008-1 to be a material weakness.

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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of Warren County School District in a separate letter dated December 9, 2008.

Warren County School District's response to the findings in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Warren County School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the School Board, management, 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.

December 9, 2008

Root, Spitznas & Smiley, Inc.

Certified Public Accountants

900 State Street
Suite One
Erie, Pennsylvania 16501-1450

814-453-7731
FAX: 814-455-6799

Michael N. Barko, CPA
J. Randolph Gehrlein, CPA
James T. Scavona, CPA

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 each of its major federal programs for the year ended June 30, 2008. 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 each of 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 each of its major federal programs for the year ended June 30, 2008.

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

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

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

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

This report is intended solely for the information and use of the School Board, management, 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.

December 9, 2008

Warren County School District
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2008

Summary of Auditors' Results:

Financial Statements

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

Material weakness(es) identified? X yes no

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

Federal Awards

1. Internal control over major programs:

Material weakness(es) identified? yes X no

Reportable condition(s) identified
that are not considered to be
material weaknesses? yes X 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 X 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? X yes no

Warren County School District

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

For the Year Ended June 30, 2008

Audit Findings:

No. 2008-1 - Account Reconciliations

Criteria

The School District's bank accounts should be reconciled on a monthly basis.

Condition

The District's accounting records were not reconciled to the monthly bank statements.

Cause

The District did not perform monthly reconciliations.

Effect

The District's revenues and expenditures were misstated.

Management Comments

Management will perform monthly bank account reconciliations to the District's accounting records for future accounting periods.

No. 2008-2 - Authorized Signatures

Criteria

Warren County School District's Board policy requires that checks drawn on all funds require three authorizing signatures (Board President, Secretary and Treasurer).

Condition

All checks written from the General Fund Northwest Savings Bank account and the Capital Reserve National City account did not contain the required three signatures.

Cause

The checks contained only one authorized signature (the Treasurer).

Warren County School District

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

For the Year Ended June 30, 2008

Audit Findings - Continued:

Effect

Board policy is not being complied with and did not permit recommended monitoring and approval of disbursements.

Management Comments

In the prior years the District disbursed all checks from the General Fund including amounts that should have been disbursed from the Capital Reserve Fund, Food Service Fund, Athletic Fund and Debt Service Fund. These checks are signed by an image produced within the software.

Management established separate checking accounts for these funds as recommended by the auditors and is in the process of implementing check printing software which will allow generating three signatures as indicated in policy.

Management will comply with the policy. As a temporary measure the District is employing a manual check signing machine that includes the three signatures.

Warren County School District
SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2008

Finding No. 2007-1 Investments

There was not a repeat of this finding for the current year.

Warren County School District

EXIT CONFERENCE

June 30, 2008

An exit conference was held on March 16, 2009 via conference call. Participating were:

J. F. Lockett, Board Vice-President and Chair of Finance Committee
Warren County School District

Dr. Robert E. Terrill, Superintendent
Warren County School District

J. Petter Turnquist, CPA, Business Administrator
Warren County School District

Michael N. Barko, CPA, Principal
Root, Spitznas and Smiley, Inc.

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, 2008 was discussed. Special attention was devoted to reviewing the audit findings and management letter.

List of Report Distribution

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| 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 Submitted electronically |