

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

**June 30, 2007**

# Root, Spitznas & Smiley, Inc.

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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, 2007, 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.*

November 16, 2007

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# WARREN COUNTY SCHOOL DISTRICT

## Management Discussion and Analysis

For the Year Ended June 30, 2007

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, 2007. 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 2006-07 include:

Total 2006-2007 general fund revenues amounted to \$ 63,941,501 compared to 2005-06 total revenue of \$ 62,191,223. This represented a 2.8% increase in revenues.

The general fund expenses, including transfers, of the District amounted to \$62,603,328 in 2006-2007 compared to total expenses in 2006-2005 of \$62,152,219. This represented a 0.7% increase in expenses.

The General Fund Total Fund Balance at fiscal year ending 2006-2007 was \$6,760,559, which represented a favorable change of \$1,338,173 (24.7%) from the prior year's fund balance of \$5,422,386. Included in the Total Fund Balance is a designation of \$1,276,580 for 2007-2008 operations. The Unreserved-Undesignated Fund Balance of \$5,483,979 at fiscal year ending June 30, 2007 represented 8.8% of the total expenditures in the fiscal year compared to the fund balance at fiscal year ended June 30, 2006, which represented 4.9% of the expenses for that period. Although the 2006-2007 fiscal budget projected the use of approximately \$2.39 million of the beginning fund balance, a significant increase in investment earnings, and grant revenue for the period, along with holding the line on a number of expenditure items, resulted in the \$1,338,173 increase to the beginning fund balance. The projected use of fund balance in the 2005-2006 year was budgeted at approximately \$ 1.25 million.

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

### **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, 2007

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 2006-2007.

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 2006-2007 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 2006-2007 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, 2007

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 2006-2007 resulted in an increase in net assets of \$2,960,293. The increase resulted primarily from reductions in expenditures, an increase in taxes collected in 2006-2007 compared to the 2005-2006 fiscal year, as well as the increases in the State subsidies and grants. The cash flow of the district benefited from an enhanced fund balance and a significant increase in investment earnings.

	<b>2006-2007</b>	<b>2005-2006</b>
Property Taxes	\$24,881,766	\$24,596,400
Grants, subsidies, other	\$22,805,896	\$21,767,073
Investment earnings	\$634,525	\$359,622
Miscellaneous income	\$261,166	\$640,187
Transfers between Governments	0	0
<b>Total</b>	<b>\$48,583,353</b>	<b>\$47,363,282</b>

### **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 2006-2007 the general fund transferred \$0 to the food service fund.

### **REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS:**

The analysis of the District's major funds begins on page 11. Detailed information about the District's major funds is reported through the fund financial reports. The major funds will focus on the general fund and the capital projects fund.

# WARREN COUNTY SCHOOL DISTRICT

## Management Discussion and Analysis

For the Year Ended June 30, 2007

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), 40 percent; State and Federal revenues, 60 percent.

	2006-2007	2005-2006
Local Revenue	\$25,441,011 (40%)	\$24,575,063 (40%)
State Revenue	\$35,139,387 (55%)	\$33,552,227 (54%)
Federal & Other	\$ 3,361,103 ( 5%)	\$ 4,063,933 ( 6%)
<b>TOTAL</b>	<b>\$63,941,501</b>	<b>\$62,191,223</b>

### **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).

	2006-2007	2005-2006
Instruction	\$37,555,808 (60%)	\$36,259,772 (60%)
Support Services	\$19,515,683 (31%)	\$20,550,153 (34%)
Non-Instruction & Debt	\$ 5,531,837 ( 9%)	\$ 5,342,294 ( 6%)
<b>TOTAL</b>	<b>\$62,603,328</b>	<b>\$62,152,219</b>

# WARREN COUNTY SCHOOL DISTRICT

## Management Discussion and Analysis

For the Year Ended June 30, 2007

Required Supplementary Information

The 2006-2007 fiscal year saw some moderate 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:

	<b>2006-2007</b>
General Fund	\$ 6,760,559
Capital Reserve	\$ 2,293,105
Capital Projects	\$ 4,948
Debt Service	\$ 500
<b>Total</b>	<b>\$ 9,059,112</b>

### **General Fund Budget Highlights**

The \$63,941,501 of revenues in the general fund in 2006-2007 applied against the total general fund expenditure outlay of \$62,603,328 resulted in a net increase to the fund balance of \$1,338,173. Although the District recognizes a fund balance of \$6,760,559, it also realizes that post-retirement benefits accounts for over \$4,800,000 and needs to be considered as a designation of that fund balance and that \$1,276,580 is included to fund 2007-2008 operating expenses.

### **Comparison of Transfer Out Accounts**

	<b>2006-2007</b>	<b>2005-2006</b>
Contribution to Athletics	\$ 847,381	\$ 782,686
Contribution to Food Svc	\$ 0	\$ 0
Contribution/Capital Reserve	\$ 1,250,000	\$ 1,250,000
Debt Service Payments	\$ 3,241,458	\$ 3,141,073
<b>TOTALS</b>	<b>\$ 5,338,839</b>	<b>\$ 5,173,759</b>

### **Capital Asset and Debt Administration**

At the end of fiscal year 2006-2007, the District had \$42.9 million invested in land, buildings, equipment and construction-in-process (\$82.7 million, less accumulated depreciation of \$39.8 million).

# WARREN COUNTY SCHOOL DISTRICT

## Management Discussion and Analysis

For the Year Ended June 30, 2007

Required Supplementary Information

### **Debt Administration**

The existing bonds payable at June 30, 2007, totaled \$29,295,000. Debt payments for the fiscal year including principal & interest totaled \$3,239,048.

At June 30, 2007, the District's non-electoral limit for debt (225% of borrowing base) was \$110 million.

### **Factors Expected to have an Effect on Future Operations**

The stagnant status of the local real estate assessments, coupled with continued appeals from local businesses and industries, concerns the District as current operational expenses continue to rise without any normal inflationary increases in revenues. The impact of the Act 1 legislation regarding gambling revenues will also have to be dealt with as the District moves forward. With the continued projections for decreases in the District student enrollment, the challenge to reduce operational costs while maintaining the expected high levels of educational programming is a continuing challenge for the District Board and administration.

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## Independent Auditors' Report

Members of the School Board  
Warren County School District

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Warren County School District, Warren, Pennsylvania, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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, 2007, 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 November 16, 2007, 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 should be considered in assessing the results of our audit.

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

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

*Root, Spitznagel and Smiley, Inc.*

November 16, 2007

FINANCIAL STATEMENTS

Warren County School District  
Statement of Net Assets  
June 30, 2007

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
<b>Current Assets</b>			
0100 Cash and cash equivalents	\$ 8,863,605	\$ 791,729	\$ 9,655,334
0110 Investments	382,414	-	382,414
0120 Taxes receivable (net)	3,492,679	-	3,492,679
0133 Internal balances	797,267	-	797,267
0141 Due from other governments	638,613	114,791	753,404
0146 Due from primary government	-	-	-
0147 Due from component units	-	-	-
0150 Other receivables	70,825	2,421	73,246
0170 Inventories	-	20,460	20,460
0180 Prepaid expenses	618,237	-	618,237
0190 Other current assets	396,011	-	396,011
XXXX Total current assets	15,259,651	929,401	16,189,052
<b>Noncurrent Assets</b>			
0108 Restricted cash and cash equivalents	-	-	-
0260 Long-term prepayments	-	-	-
0210 Land and site improvements (net)	1,117,157	-	1,117,157
0220 Building and building improvements (net)	35,466,258	-	35,466,258
0230 Machinery and equipment (net)	6,225,786	159,225	6,385,011
0250 Construction in progress	53,857	-	53,857
0280 Infrastructure assets (net)	-	-	-
0290 Other long-term receivables	-	-	-
XXXX Total noncurrent assets	42,863,058	159,225	43,022,283
XXXX Total assets	\$ 58,122,709	\$ 1,088,626	\$ 59,211,335
<b>Liabilities</b>			
<b>Current Liabilities</b>			
0403 Internal balances	\$ -	\$ 797,267	\$ 797,267
0411 Due to other governments	-	-	-
0412 Due to primary government	-	-	-
0413 Due to component units	-	-	-
0420 Accounts payable	667,562	37,254	704,816
0430 Contracts payable	-	-	-
0440 Current portion of long-term debt	2,260,000	-	2,260,000
0450 Short-term payables	-	-	-
0461 Accrued salaries and benefits	1,520,892	-	1,520,892
0462 Payroll deductions and withholdings	828,278	-	828,278
0470 Advances from other funds	-	-	-
0480 Deferred revenues	-	-	-
0490 Other current liabilities	864,718	-	864,718
XXXX Total current liabilities	6,141,450	834,521	6,975,971
<b>Noncurrent Liabilities</b>			
0510 Bonds payable	27,035,000	-	27,035,000
0520 Extended term financing agreements	-	-	-
0530 Lease purchase obligations	-	-	-
0540 Long-term portion of compensated absences	629,531	-	629,531
0550 Authority lease obligations	-	-	-
0590 Other long-term liabilities	-	-	-
XXXX Total noncurrent liabilities	27,664,531	-	27,664,531
XXXX Total liabilities	33,805,981	834,521	34,640,502
<b>Net Assets</b>			
0791 Invested in capital assets net of debt	13,679,356	-	13,679,356
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)	10,636,872	254,105	10,890,977
0790 Total net assets	24,316,728	254,105	24,570,833
XXXX Total liabilities and net assets	\$ 58,122,709	\$ 1,088,626	\$ 59,211,335

The accompanying notes are an integral part of these statements.

Warren County School District  
Statement of Activities  
June 30, 2007

Functions/Programs		Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:								
Instruction:								
1100	Regular instruction	\$ 27,179,522	\$ 25,153	\$ 2,997,289	\$ -	\$ (24,157,080)	\$ -	\$ (24,157,080)
1200	Special instruction	8,973,011	-	5,407,653	-	(3,565,358)	-	(3,565,358)
1300	Vocational instruction	1,429,222	-	420,166	-	(1,009,056)	-	(1,009,056)
1400	Other instructional programs	1,687,557	-	1,365,343	-	(322,214)	-	(322,214)
1600	Adult education programs	-	-	-	-	-	-	-
Total instructional services		39,269,312	25,153	10,190,451	-	(29,053,708)	-	(29,053,708)
Support services:								
2100	Pupil personnel	1,199,015	-	84,171	-	(1,114,844)	-	(1,114,844)
2200	Instructional staff	2,248,257	-	678,758	-	(1,569,499)	-	(1,569,499)
2300	Administration	4,194,776	-	183,478	-	(4,011,298)	-	(4,011,298)
2400	Pupil health	403,004	-	129,632	-	(273,372)	-	(273,372)
2500	Business services	696,866	-	33,908	-	(662,958)	-	(662,958)
2600	Operation and maintenance of plant services	6,225,434	13,564	140,662	-	(6,071,208)	-	(6,071,208)
2700	Student transportation	4,626,546	-	3,082,428	-	(1,544,118)	-	(1,544,118)
2800	Central	164,770	-	199,616	-	34,846	-	34,846
2900	Other support services	89,465	-	-	-	(89,465)	-	(89,465)
Total support services		19,848,133	13,564	4,532,653	-	(15,301,916)	-	(15,301,916)
Non-instructional services:								
3200	Student activities	1,093,088	58,971	24,839	-	(1,009,278)	-	(1,009,278)
3300	Community services (excl. 3340)	19,103	-	15,646	-	(3,457)	-	(3,457)
3400	Scholarships and awards	-	-	-	-	-	-	-
5100-83	Interest on long-term debt	1,016,585	-	761,884	-	(254,701)	-	(254,701)
0750	Unallocated depreciation expense	-	-	-	-	-	-	-
Total non-instructional services		2,128,776	58,971	802,369	-	(1,267,436)	-	(1,267,436)
Total governmental activities		61,246,221	97,688	15,525,473	-	(45,623,060)	-	(45,623,060)
3100	Business-type activities:							
	Food service	1,630,823	740,414	859,105	-	-	(31,304)	(31,304)
Total primary government		\$ 62,877,044	\$ 838,102	\$ 16,384,578	\$ -	(45,623,060)	(31,304)	(45,654,364)
General revenues								
Taxes:								
6111	Property taxes, levied for general purposes, net					24,881,766	-	24,881,766
	Taxes levied for specific purposes					-	-	-
	Grants, subsidies and contributions not restricted					22,805,896	-	22,805,896
9640, 9611	Receipts from member districts					-	-	-
6500	Investment earnings					634,525	2,037	636,562
	Miscellaneous income					261,166	487	261,653
8888	Special items					-	-	-
8889	Extraordinary items					-	-	-
	Transfers					-	-	-
Total general revenues, special items, extraordinary items and transfers						48,583,353	2,524	48,585,877
Change in net assets						2,960,293	(28,780)	2,931,513
Net assets-beginning						21,356,435	282,885	21,639,320
Net assets-ending						\$ 24,316,728	\$ 254,105	\$ 24,570,833

The accompanying notes are an integral part of these statements.

Warren County School District  
Balance Sheet  
Governmental Funds  
June 30, 2007

	General Fund	Capital Reserve	Capital Projects	Debt Service	Non Major Funds	Total Gov't Funds
<b>Assets</b>						
0100 Cash and cash equivalents	\$ 6,384,268	\$ 2,460,426	\$ 4,948	\$ 500	\$ 13,464	\$ 8,863,606
0110 Investments	382,414	-	-	-	-	382,414
0120 Taxes receivable (net)	3,169,669	-	-	-	-	3,169,669
0130 Due from other funds	1,515,342	686,490	-	-	7,352	2,209,184
0141 Due from other governments	569,067	-	-	-	-	569,067
0146 Due from primary government	-	-	-	-	-	-
0147 Due from component units	-	-	-	-	-	-
0150 Other receivables	70,825	-	-	-	-	70,825
0160 Advances to other funds	-	-	-	-	-	-
0170 Inventories	-	-	-	-	-	-
0180 Prepaid expenses	618,237	-	-	-	-	618,237
0190 Other current assets	289,662	-	-	-	-	289,662
XXXX Total assets	<u>\$ 12,999,484</u>	<u>\$ 3,146,916</u>	<u>\$ 4,948</u>	<u>\$ 500</u>	<u>\$ 20,816</u>	<u>\$ 16,172,664</u>
<b>Liabilities and Fund Balance</b>						
<b>Liabilities</b>						
0400 Due to other funds	\$ 694,193	\$ 717,724	\$ -	\$ -	\$ -	\$ 1,411,917
0411 Due to other governments	-	-	-	-	-	-
0412 Due to primary government	-	-	-	-	-	-
0413 Due to component units	-	-	-	-	-	-
0420 Accounts payable	511,134	136,087	-	-	20,340	667,561
0430 Contracts payable	-	-	-	-	-	-
0440 Current portion of long-term debt	-	-	-	-	-	-
0450 Short-term payables	-	-	-	-	-	-
0461 Accrued salaries and benefits	1,520,416	-	-	-	476	1,520,892
0462 Payroll deductions and withholdings	828,278	-	-	-	-	828,278
0470 Advances from other funds	-	-	-	-	-	-
0480 Deferred revenues	2,531,251	-	-	-	-	2,531,251
0490 Other current liabilities	153,653	-	-	-	-	153,653
XXXX Total liabilities	<u>6,238,925</u>	<u>853,811</u>	<u>-</u>	<u>-</u>	<u>20,816</u>	<u>7,113,552</u>
<b>Fund Balances</b>						
<b>Standard Fund Balance Reserves</b>						
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	-	-	4,948	-	-	4,948
0795 Reserve for other (explain)	-	-	-	-	-	-
0760 Specific fund balance reserves	-	-	-	-	-	-
0771 Unreserved - designated	1,276,580	2,293,105	-	-	-	3,569,685
0772 Unreserved - undesignated	5,483,979	-	-	-	-	5,483,979
XXXX Total fund balances	<u>6,760,559</u>	<u>2,293,105</u>	<u>4,948</u>	<u>500</u>	<u>-</u>	<u>9,059,112</u>
XXXX Total liabilities and fund balances	<u>\$ 12,999,484</u>	<u>\$ 3,146,916</u>	<u>\$ 4,948</u>	<u>\$ 500</u>	<u>\$ 20,816</u>	<u>\$ 16,172,664</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, 2007

Total fund balances - governmental funds	\$ 9,059,112
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$82,697,103, and the accumulated depreciation is \$39,834,045	42,863,058
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Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.	2,531,251
---	-----------

Allowance for doubtful accounts - taxes receivable	(114,317)
--	-----------

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	\$ (29,295,000)	
Deferred amount on refunding (net)	71,433	
Bond discount (net)	34,916	
Accrued interest on the bonds	(292,299)	
Compensated absences	(1,048,299)	(30,529,249)

Other:

Earned income tax receivable from self-employed individuals	437,327
Rental subsidy receivable	69,546

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	<u>\$ 24,316,728</u>
--	----------------------

The accompanying notes are an integral part of these statements.

Warren County School District  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2007

	General Fund	Capital Reserve	Capital Projects	Debt Service
Revenues				
6000 Local sources	\$ 25,441,011	\$ 125,119	\$ 7,682	\$ -
7000 State sources	35,139,387	-	-	-
8000 Federal sources	3,162,633	-	-	-
0010 Total revenues	63,743,031	125,119	7,682	-
Expenditures				
1000 Instruction	37,555,808	-	-	-
2000 Support services	19,515,683	-	-	-
3000 NonInstructional services	187,184	-	-	2,410
4000 Capital outlay	-	1,252,688	353,618	-
5110 Debt service (principal and interest)	5,814	-	-	3,239,048
0020 Total expenditures	57,264,489	1,252,688	353,618	3,241,458
Excess (deficiency) of revenues over expenditures	6,478,542	(1,127,569)	(345,936)	(3,241,458)
Other Financing Sources (Uses)				
9110 Bond proceeds	-	-	-	-
9120 Refunding bond proceeds	-	-	-	-
9200 Proceeds from extended term financing	-	-	-	-
9300 Interfund transfers	-	1,250,000	-	3,241,458
9400 Sale/compensation for fixed assets	198,470	-	-	-
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	-	-	-	-
5200 Operating transfers out	(5,338,839)	-	-	-
5310 Operating transfers to component unit	-	-	-	-
5320 Operating transfers to primary government	-	-	-	-
XXXX Total other financing sources (uses)	(5,140,369)	1,250,000	-	3,241,458
Special/Extraordinary Items				
8888 Special items	-	-	-	-
8889 Extraordinary items	-	-	-	-
Net change in fund balances	1,338,173	122,431	(345,936)	-
0040 Fund balance - July 1, 2006	5,422,386	2,170,674	350,884	500
0050 Prior period adjustment	-	-	-	-
0700 Fund balance - June 30, 2007	\$ 6,760,559	\$ 2,293,105	\$ 4,948	\$ 500

The accompanying notes are an integral part of these statements.

Non Major Funds	Total Gov. Funds
\$ 58,971	\$ 25,632,783
20,187	35,159,574
-	3,162,633
79,158	63,954,990
-	37,555,808
-	19,515,683
926,539	1,116,133
-	1,606,306
-	3,244,862
926,539	63,038,792
(847,381)	916,198
-	-
-	-
-	-
847,381	5,338,839
-	198,470
-	-
-	-
-	-
-	-
-	-
-	(5,338,839)
-	-
-	-
847,381	198,470
-	-
-	-
-	1,114,668
-	7,944,444
-	-
\$ -	\$ 9,059,112

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, 2007

Total net change in fund balances - governmental funds \$ 1,114,668

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	\$ (2,881,557)	
Capital outlays	<u>2,254,984</u>	(626,573)

The proceeds from the sale of fixed assets are recorded as revenue in the governmental funds. However, in the statement of activities, only the loss on the sale is recognized as expense. 24,034

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred tax revenues increased by this amount this year. 182,632

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 2,215,000

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

Other:

Change in self-employment taxes receivable	(107,560)
Change in rental reimbursement receivable	9,162
Change in allowance for doubtful accounts	(7,145)
Change in compensated absences	150,057
Change in accrued interest payable	<u>15,686</u>

Change in net assets of governmental activities \$ 2,960,293

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, 2007

		Budgeted Amounts		Actual	Variance with
		Original	Final	(Budgetary Basis)	Final Budget Positive (Negative)
Revenues					
6000	Local revenues	\$ 24,881,898	\$ 24,881,898	\$ 25,441,011	\$ 559,113
7000	State program revenues	35,210,119	35,260,606	35,139,387	(121,219)
8000	Federal program revenues	2,885,859	3,193,520	3,162,633	(30,887)
	Total revenues	62,977,876	63,336,024	63,743,031	407,007
Expenditures					
1100	Regular programs	27,087,829	26,576,010	26,044,943	531,067
1200	Special programs	8,482,109	8,696,919	8,469,730	227,189
1300	Vocational programs	1,270,157	1,270,157	1,346,387	(76,230)
1400	Other instructional programs	1,221,788	1,795,251	1,694,748	100,503
1600	Adult education programs	-	-	-	-
1700	Community/junior college ed programs	-	-	-	-
2100	Pupil personnel services	1,226,933	1,226,933	1,191,011	35,922
2200	Instructional staff services	2,502,525	2,662,400	2,285,204	377,196
2300	Administrative services	4,390,649	4,401,092	3,977,484	423,608
2400	Pupil health	441,930	441,930	395,939	45,991
2500	Business services	833,150	822,780	690,140	132,640
2600	Operation and maintenance of plant services	6,842,916	6,842,916	6,109,701	733,215
2700	Student transportation services	5,131,020	4,880,452	4,623,187	257,265
2800	Central and other support services	309,096	316,449	243,017	73,432
3100	Food services	-	-	-	-
3200	Student activities	210,251	210,751	168,081	42,670
3300	Community services	18,586	10,714	19,103	(8,389)
3400	Scholarships and awards	-	-	-	-
4000	Facilities acquisition and construction	-	-	-	-
5110	Debt service	3,239,048	3,239,048	5,814	3,233,234
	Total expenditures	63,207,987	63,393,802	57,264,489	6,129,313
	Excess (deficiency) of revenues over expenditures	(230,111)	(57,778)	6,478,542	6,536,320
Other Financing Sources (Uses)					
9100	Sale of bonds	-	-	-	-
9200	Proceeds from extended term financing	-	-	-	-
9300	Interfund transfers	-	-	-	-
9400	Sale/compensation for fixed assets	177,000	177,000	198,470	21,470
9500	Refunds of prior years expenditures	-	-	-	-
9700	Operating transfers from Component units	-	-	-	-
5120	Debt service - refunded bond issues	-	-	-	-
5200	Fund transfers	(2,118,354)	(2,118,354)	(5,338,839)	(3,220,485)
5300	Transfers to component units	-	-	-	-
5900	Budgetary reserve	(220,000)	(220,000)	-	220,000
	Total other financing sources (uses)	(2,161,354)	(2,161,354)	(5,140,369)	(2,979,015)
8888	Special items	-	-	-	-
8889	Extraordinary items	-	-	-	-
	Net change in fund balances	(2,391,465)	(2,219,132)	1,338,173	3,557,305
0040	Fund balance--July 1, 2006	5,422,386	5,422,386	5,422,386	-
0050	Change in Inv/RS Equity Trans/Prior Yr Adj	-	-	-	-
XXXX	Fund balance--June 30, 2007	\$ 3,030,921	\$ 3,203,254	\$ 6,760,559	\$ 3,557,305

The accompanying notes are an integral part of these statements.

Budget to GAAP Difference	Actual Amounts GAAP basis
\$ (29,210)	\$ 25,470,221
(9,162)	35,148,549
-	3,162,633
(38,372)	63,781,403
(1,134,579)	27,179,522
(503,281)	8,973,011
(82,835)	1,429,222
7,191	1,687,557
-	-
-	-
(8,004)	1,199,015
36,947	2,248,257
(217,292)	4,194,776
(7,065)	403,004
(6,726)	696,866
55,607	6,054,094
(3,359)	4,626,546
(11,218)	254,235
-	-
1,533	166,548
-	19,103
-	-
-	-
-	5,814
(1,873,081)	59,137,570
1,834,709	4,643,833
-	-
-	-
-	-
24,035	174,435
-	-
-	-
-	-
(5,338,839)	-
-	-
-	-
(5,314,804)	174,435
-	-
-	-
(3,480,095)	4,818,268
267,365	5,155,021
488,677	(488,677)
\$ (2,724,053)	\$ 9,484,612

Warren County School District  
Statement of Net Assets  
Proprietary Funds  
June 30, 2007

	Food Service	Internal Service
<b>Assets</b>		
<b>Current Assets</b>		
0100 Cash and cash equivalents	\$ 791,729	\$ -
0110 Investments	-	-
0130 Due from other funds	352	-
0141 Due from other governments	114,791	-
0146 Due from primary government	-	-
0147 Due from component units	-	-
0150 Other receivables	2,421	-
0160 Advances to other funds	-	-
0170 Inventories	20,460	-
0180 Prepaid expenses	-	-
0190 Other current assets	-	-
XXXX Total current assets	929,753	-
<b>Noncurrent Assets</b>		
0108 Restricted cash and equivalents	-	-
0210 Land and site improvements	-	-
0220 Building and building improvements(net)	-	-
0230 Machinery and equipment (net)	159,225	-
0250 Construction in progress	-	-
0260 Long-term prepayments	-	-
XXXX Total noncurrent assets	159,225	-
XXXX Total assets	\$ 1,088,978	\$ -
<b>Liabilities</b>		
<b>Current Liabilities</b>		
0400 Due to other funds	\$ 797,619	\$ -
0411 Due to other governments	-	-
0413 Due to component units	-	-
0420 Accounts payable	37,254	-
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	834,873	-
<b>Noncurrent Liabilities</b>		
0510 Bonds payable	-	-
0520 Extended term financing agreements	-	-
0530 Lease purchase obligations	-	-
0540 Long-term portion of compensated abs	-	-
0550 Authority lease obligations	-	-
0590 Other long-term liabilities	-	-
XXXX Total noncurrent liabilities	-	-
XXXX Total liabilities	834,873	-
<b>Net Assets</b>		
0791 Invested in capital assets net of debt	-	-
0798 Restricted for legal purposes	-	-
0799 Unrestricted	254,105	-
0790 Total net assets	254,105	-
XXXX Total liabilities and net assets	\$ 1,088,978	\$ -

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, 2007

	Food Service	Internal Service
Operating Revenues:		
6600 Food service revenue	\$ 740,414	\$ -
6900 Charges for services	-	-
6999 Other operating revenues	487	-
0010 Total operating revenues	740,901	-
Operating Expenses:		
0100 Salaries	484,134	-
0200 Employee benefits	250,872	-
0300 Purchased professional and technical service	-	-
0400 Purchased property service	-	-
0500 Other purchased service	758,782	-
0600 Supplies	28	-
0700 Depreciation	27,026	-
0810 Dues and fees	-	-
0820 Claims and judgments	-	-
0890 Other operating expenditures	99,229	-
0020 Total operating expenses	1,620,071	-
0030 Operating income (loss)	(879,170)	-
Nonoperating Revenues (Expenses)		
6500 Earnings on investments	2,037	-
6920 Contributions and donations	-	-
6930 Gain/loss on sale of fixed assets	(10,752)	-
7000 State sources	94,457	-
8000 Federal sources	764,648	-
9500 Refunds of prior year expenditures	-	-
0820 Claims and judgments	-	-
0830 Interest expenses	-	-
0040 Total nonoperating revenues (expenses)	850,390	-
Income (loss) before contributions	(28,780)	-
6920 Capital contributions	-	-
9998 Transfers from (to) component units	-	-
9999 Transfers in (out)	-	-
Change in net assets	(28,780)	-
XXXX Total net assets - July 1, 2006	282,885	-
0057 Accounting changes	-	-
0061 Prior period adjustment	-	-
XXXX Total net assets - June 30, 2007	\$ 254,105	\$ -

The accompanying notes are an integral part of these statements.

Warren County School District  
Combined Statement of Cash Flows  
Proprietary Fund Types  
June 30, 2007

	Food Service	Internal Service
Cash Flows From Operating Activities		
9937 Cash received from users	\$ 867,650	\$ -
9938 Cash received from assessments made to other funds	-	-
9939 Cash received from earnings on investments	-	-
9940 Cash received from other operating revenue	487	-
9941 Cash payments to employees for services	(735,143)	-
9942 Cash payments for insurance claims	-	-
9943 Cash payments to suppliers for goods and services	(454,851)	-
9944 Cash payments for other operating expenses	(99,229)	-
Net cash provided by (used for) operating activities	(421,086)	-
Cash Flows From Non-Capital Financing Activities		
6000 Local sources	-	-
7000 State sources	94,063	-
8000 Federal sources	759,727	-
9917 Notes and loans received	-	-
9918 Interest paid on notes/loans (5100-830)	-	-
9919 Operating transfers in (out)/ residual equity	-	-
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	853,790	-
Cash Flows From Capital and Related Financing Activities		
4000 Facilities acquisition/construction/imp. serv	(13,357)	-
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	(13,357)	-
Cash Flows From Investing Activities		
6500 Earnings on investments	2,037	-
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	2,037	-
Net increase (decrease) in cash and cash flows	421,384	-
9935 Cash and cash equivalents beginning of year	370,345	-
9936 Cash and cash equivalents at year end	\$ 791,729	\$ -

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, 2007

	Food Service	Internal Service
9900 Operating income (loss)	\$ (879,170)	\$ -
Adjustments to reconcile operating income (loss) to net cash provided by (used for):		
9901 Depreciation and net amortization	27,026	-
9902 Provision for uncollectible accounts	-	-
9903 Write-in	-	-
9904 (Increase) decrease in accounts receivable	127,236	-
9905 (Increase) decrease in advances to other funds	-	-
9906 (Increase) decrease in inventories	14,669	-
9907 (Increase) decrease in prepaid expenses	-	-
9908 (Increase) decrease in other current assets	-	-
9909 Increase (decrease) in accounts payable	(72,273)	-
9910 Increase (decrease) in accrued salaries and benefits	(137)	-
9911 Increase (decrease) in payroll deductions/withholding	-	-
9912 Increase (decrease) in advances from other funds	361,563	-
9913 Increase (decrease) in deferred revenue	-	-
9914 Increase (decrease) in other current liabilities	-	-
Total adjustments	458,084	-
Cash provided by (used for) total	\$ (421,086)	\$ -

The accompanying notes are an integral part of these statements.

Warren County School District  
Statement of Net Assets  
Fiduciary Funds  
June 30, 2007

		Agency Funds		Trust Funds	Total
		Student Activities	Earned Income Tax Office		
Assets					
0100	Cash and cash equivalents	\$ 139,569	\$ 132,861	\$ 33,356	\$ 305,786
0110	Investments	-	740,209	230,336	970,545
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>\$ 139,569</u>	<u>\$ 873,070</u>	<u>\$ 263,692</u>	<u>\$ 1,276,331</u>
Liabilities					
0420	Accounts payable	\$ 139,569	\$ 873,070	\$ -	\$ 1,012,639
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>139,569</u>	<u>873,070</u>	<u>-</u>	<u>1,012,639</u>
Net Assets					
0791	Invested in capital assets net of debt	-	-	-	-
0798	Restricted for legal purposes	-	-	263,692	263,692
0799	Unrestricted	-	-	-	-
XXXX	Total net assets	<u>-</u>	<u>-</u>	<u>263,692</u>	<u>263,692</u>
XXXX	Total liabilities and net assets	<u>\$ 139,569</u>	<u>\$ 873,070</u>	<u>\$ 263,692</u>	<u>\$ 1,276,331</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, 2007

	<u>Trust Funds</u>
Additions	
Gifts and contributions	\$ -
Earnings on investments	34,885
Deductions	
Scholarships awarded	<u>(8,261)</u>
Change in net assets	26,624
Net assets-July 1, 2006	<u>237,068</u>
Net assets-June 30, 2007	<u><u>\$ 263,692</u></u>

The accompanying notes are an integral part of these statements.

Warren County School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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, 2007

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, 2007

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, 2007

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, 2007

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 \$20,410,374 on July 1, 2006 based on a gross assessed valuation of \$443,703,781 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 lienied.

6. Budgets and Budgetary Accounting

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

- a. Prior to May 31, the Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.

Warren County School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- b. Public hearings are conducted for twenty (20) days prior to the date set for adoption.
- c. Prior to June 30, the budget is legally enacted through passage of a resolution.
- d. The budget is adopted on the modified accrual basis of accounting.
- e. Formal budgetary integration is employed as a management control device during the year for the General Fund. Formal budgetary integration is not employed by other funds because effective budgetary control is alternatively achieved through direct authorization by the School Board or expenditures are all fixed in nature.
- f. The Business Manager is authorized to transfer budgeted amounts between functional areas within the fund, but such action shall be taken only during the last nine (9) months of the fiscal year. Any revisions that alter the total expenditures of the fund require School Board approval.
- g. Unencumbered appropriations lapse at year end.

7. Encumbrances

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

8. Investments

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

9. Inventory

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

Warren County School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

10. Capital Assets and Depreciation

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The District defines capital assets as assets with an initial, individual cost of \$300 or more. Donated fixed assets are recorded at their fair market value as of the date received. The District does not possess any infrastructure.

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

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

11. Interfund Transactions

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Sales of goods and services between funds are reported as revenues in the seller funds and as expenses/expenditures in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds.

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

12. Compensated Absences

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

Warren County School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

For governmental funds, vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the appropriate fund. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available resources are not reported in the fund financial statements. Unpaid compensated absences consist of \$260,280 for unused vacation pay and \$788,019 for accumulated sick pay.

13. Accrued Liabilities and Long-Term Debt

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

14. Concentration of Credit Risk

The District maintains various deposits presented on the balance sheet as cash and investments with several local banks. The amounts on deposit with certain banks exceed the \$100,000 federally insured limit. See Note B for further detail.

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

15. Estimates in Financial Statements

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

Warren County School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

16. Pension Plan Description

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

Funding Policy

The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers, and the Commonwealth. Most active members contribute at 5.25 or 6.50 percent of the member's qualifying compensation. Members joining the system on or after July 22, 1983 contribute at 6.25 or 7.50 percent. Members joining the system after June 30, 2001 contribute at 7.50 percent. Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 30, 2007 the rate of employer contribution was 6.46 percent of covered payroll. The 6.46 percent rate is composed of a pension contribution rate of 5.72 percent for pension benefits and .74 percent for healthcare insurance premium assistance. The School District's contributions to the system for the years ending June 30, 2007, 2006 and 2005 were \$1,858,833, \$1,368,175 and \$1,230,656, respectively, equal to the required contributions for each year.

NOTE B - NON-POOLED CASH AND INVESTMENTS

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

Warren County School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE B - NON-POOLED CASH AND INVESTMENTS - Continued

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, 2007, the bank balance of the District's deposits that are exposed to custodial credit risk is \$13,213,433 and their carrying amount is \$10,483,431. 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, 2007, the District had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Certificates of Deposit	N/A	\$ 137,049
Mutual Funds	N/A	230,336
Merrill Lynch WCMA Money Fund	N/A	295,365
PNC Bank BlackRock Liquidity Fund	N/A	<u>690,209</u>
		<u>\$1,352,959</u>

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

Credit Risk - The District has no investment policy that limits its choices to certain credit ratings. The District's investments in PNC Bank commercial paper have been rated A-1 by Standard & Poor's, F-1 by Fitch Ratings and P-1 by Moody's. Investments in BlackRock Liquidity Funds have been rated AAAM by Standard & Poor's and AAA/V1 by Fitch Ratings. The District's investment in Northwest Savings Bank commercial paper and 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, 2007, \$1,057,594 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.

Warren County School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE B - NON-POOLED CASH AND INVESTMENTS - Continued

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 PNC Bank money market funds, Merrill Lynch money funds, various mutual funds held by the Trust Fund and Northwest Savings Bank commercial paper. These investments are 51.01%, 21.83%, 17.02% and 6.43%, respectively, of the District's investments.

NOTE C - TAXES RECEIVABLE

Taxes receivable consist of the following at June 30, 2007:

	Government- Wide <u>Statements</u>	Fund <u>Statements</u>
Delinquent real estate taxes	\$ 3,080,541	\$3,080,541
Delinquent per capita	68,732	68,732
Earned income tax	437,327	-
Realty transfer tax	20,396	20,396
Allowance for doubtful accounts	( 114,317)	-
	<u>\$ 3,492,679</u>	<u>\$3,169,669</u>

In accordance with the modified accrual basis of accounting, the above has been recognized as revenue only to the extent that they are measurable and available. Accordingly, \$2,531,251 of the delinquent real estate taxes deemed not available as of June 30, 2007 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, 2007 consist of the following:

	Interfund <u>Receivable</u>	Interfund <u>Payable</u>
General fund	\$ 1,515,342	\$ 694,193
Capital reserve fund	686,490	717,724
Athletic fund	7,352	-
Food service fund	<u>352</u>	<u>797,619</u>
	<u>\$ 2,209,536</u>	<u>\$2,209,536</u>

Warren County School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE D - INTERFUND TRANSACTIONS - Continued

Interfund transfers on the fund statements at June 30, 2007 consist of the following:

	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$ -	\$ 5,338,839
Capital Reserve Fund	1,250,000	-
Debt Service Fund	3,241,458	-
Athletic Fund	<u>847,381</u>	<u>-</u>
	<u>\$ 5,338,839</u>	<u>\$ 5,338,839</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 and the Capital Reserve Fund were made to fund activities and certain repairs and maintenance of the District's buildings and facilities.

NOTE E - CAPITAL ASSETS

A summary of capital asset activity during the year follows:

	<u>Balance June 30, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2007</u>
Governmental Activities				
Land & Improvements	\$ 1,946,999	\$ 375,899	\$ 16,989	\$ 2,305,909
Buildings & Improvements	58,380,052	1,529,537	193,909	59,715,680
Machinery & Equipment	20,123,157	1,163,481	664,981	20,621,657
Construction-In-Progress	<u>819,719</u>	<u>337,720</u>	<u>1,103,582</u>	<u>53,857</u>
Total Capital Assets	<u>81,269,927</u>	<u>3,406,637</u>	<u>1,979,461</u>	<u>82,697,103</u>

Warren County School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE E - CAPITAL ASSETS - Continued

	Balance June 30, 2006	Additions	Deletions	Balance June 30, 2007
Less: Accumulated Depreciation:				
Site Improvements	\$ 1,165,786	\$ 36,028	\$ 13,061	\$ 1,188,753
Buildings & Improvements	23,238,699	1,204,632	193,909	24,249,422
Machinery & Equipment	<u>13,399,848</u>	<u>1,640,897</u>	<u>644,875</u>	<u>14,395,870</u>
Total Accumulated Depreciation	<u>37,804,333</u>	<u>2,881,557</u>	<u>851,845</u>	<u>39,834,045</u>
Capital Assets, Net	<u>\$ 43,465,594</u>	<u>\$ 525,080</u>	<u>\$ 1,127,616</u>	<u>\$ 42,863,058</u>
Business-Type Activities				
Equipment	\$ 869,579	\$ 13,357	\$ 77,360	\$ 805,576
Less: Accumulated Depreciation	<u>685,933</u>	<u>27,026</u>	<u>66,608</u>	<u>646,351</u>
Capital Assets, Net	<u>\$ 183,646</u>	<u>(\$ 13,669)</u>	<u>\$ 10,752</u>	<u>\$ 159,225</u>

NOTE F - OTHER CURRENT LIABILITIES

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

Accrued interest payable	\$ 292,299
Current portion of compensated absences	418,768
Retirees prepaid health insurance	<u>153,651</u>
	<u>\$ 864,718</u>

NOTE G - NONCURRENT LIABILITIES

1. General Obligation Bonds

The General Obligation Bonds consist of the following as of June 30, 2007:

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.

Warren County School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE G - NONCURRENT LIABILITIES - Continued

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 2007. 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 \$7,561.

The changes in noncurrent liabilities for the year ended June 30, 2007 consist of the following:

	Balance at June 30, 2006	Increases	Decreases	Balance at June 30, 2007	Due in One Year
General Obligation					
Bonds, Series of					
2001	\$ 5,680,000	\$ -	\$ 625,000	\$ 5,055,000	\$ 640,000
2002	9,040,000	-	630,000	8,410,000	645,000
2003	9,435,000	-	405,000	9,030,000	410,000
2004	7,355,000	-	555,000	6,800,000	565,000
	31,510,000	-	2,215,000	29,295,000	2,260,000

## Warren County School District

## NOTES TO FINANCIAL STATEMENTS

June 30, 2007

## NOTE G - NONCURRENT LIABILITIES - Continued

	Balance at June 30, 2006	Increases	Decreases	Balance at June 30, 2007	Due in One Year
Compensated Absences					
Sick pay	\$ 956,735	(\$ 116,298)	\$ 52,418	\$ 788,019	\$ 158,488
Vacation pay	<u>241,621</u>	<u>308,058</u>	<u>289,399</u>	<u>260,280</u>	<u>260,280</u>
	<u>1,198,356</u>	<u>191,760</u>	<u>341,817</u>	<u>1,048,299</u>	<u>418,768</u>
	32,708,356	191,760	2,556,817	30,343,299	<u>\$2,678,768</u>
Less: Current Portion	<u>2,635,209</u>	<u>43,559</u>	<u>-</u>	<u>2,678,768</u>	
Total Noncurrent Liabilities	<u>\$30,073,147</u>	<u>\$ 148,201</u>	<u>\$ 2,556,817</u>	<u>\$27,664,531</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>			
2008	\$ 2,260,000	\$ 969,310	\$ 3,229,310
2009	2,325,000	909,544	3,234,544
2010	2,380,000	842,369	3,222,369
2011	2,465,000	768,433	3,233,433
2012	2,545,000	687,612	3,232,612
Thereafter	<u>17,320,000</u>	<u>2,855,765</u>	<u>20,175,765</u>
	<u>\$29,295,000</u>	<u>\$ 7,033,033</u>	<u>\$ 36,328,033</u>

## NOTE H - DESIGNATED FUND BALANCE

The School District has designated \$1,276,580 of its unreserved fund balance at June 30, 2007. The purpose of the designation is to provide for resources available in the general fund budget for the year ended June 30, 2008.

Warren County School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE I - CHANGES IN AGENCY FUNDS

The changes in agency funds consist of the following:

	Balance at June 30, <u>2006</u>	<u>Increases</u>	<u>Decreases</u>	Balance at June 30, <u>2007</u>
Tax Collection Fund	\$ 957,129	\$ 9,610,273	\$ 9,694,332	\$ 873,070
Student Activity Funds	<u>148,058</u>	<u>622,475</u>	<u>630,964</u>	<u>139,569</u>
	<u>\$ 1,105,187</u>	<u>\$10,232,748</u>	<u>\$10,325,296</u>	<u>\$ 1,012,639</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 \$4,812,117. The total amount paid for post-retirement benefits for the year ended June 30, 2007 was \$1,122,673.

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.

Warren County School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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.

SUPPLEMENTAL INFORMATION

GRANTOR PROGRAM TITLE	SOURCE CODE	FEDERAL CFDA NUMBER	PASS-THRU GRANTOR'S NUMBER	GRANT PERIOD BEGINNING/ ENDING DATE	GRANT AMOUNT
U.S. DEPARTMENT OF EDUCATION					
-Art Smart II	D	84.351D	Q333511	10/1/03-8/31/07	\$801,102.00
Passed Through the PA Dept of Ed					
-Title I	I	84.010	13-07-0459	7/1/06-9/30/07	\$1,074,882.00
-Title I	I	84.010	13-06-0459	7/1/05-9/30/06	\$1,052,453.00
-Title I - Academic Achievement	I	84.010	77-05-0459	7/12/04-9/30/05	\$9,990.00
-Title V Innovative Education	I	84.298	11-07-0459	7/1/06-9/30/07	\$11,693.00
-Title V Innovative Education	I	84.298	11-06-0459	7/1/05-9/30/06	\$24,762.00
-Title II Education Technology	I	84.318	55-06-0459	7/1/05-9/30/06	\$136,355.00
-Secondary Allocations	I	84.048	380-07-7074	8/14/06-6/30/07	\$94,081.00
-Secondary Allocations	I	84.048	380-06-6074	8/8/05-6/30/06	\$96,523.00
-Title II Improving Teacher Quality	I	84.367	20-07-0459	7/1/06-9/30/07	\$354,326.00
-Title II Improving Teacher Quality	I	84.367	20-06-0459	7/1/05-9/30/06	\$362,641.00
-Drug Free School Formula	I	84.186	100-07-0459	7/1/06-9/30/07	\$25,739.00
TOTAL U.S. DEPARTMENT OF EDUCATION					
Passed through Northwest Ti-County I.U. #5					
Special Education Cluster					
-IDEA Grant - Part B	I	84.027	062-07-0005	7/1/06-6/30/07	\$1,097,870.00
TOTAL MULTIPLE FUNDING					
U.S. DEPARTMENT OF AGRICULTURE					
Passed Thru PA Department of Ed					
Nutrition Cluster					
-National School Lunch		10.555	N/A	7/1/06-6/30/07	N/A
-National School Lunch	I	N/A	N/A	7/1/06-6/30/07	N/A
-National School Breakfast		10.553	N/A	7/1/06-6/30/07	N/A
-National School Breakfast	I	N/A	N/A	7/1/06-6/30/07	N/A
Less: State Share					
Passed thru PA Department of Agriculture					
Value-USDA Donated Food	I	10.550	N/A	7/1/06-6/30/07	N/A
Passed thru Rural Utilities Service					
Distance Learning & Telemedicine Grant					
-RUS Telecommunications	D	10.855	PA0714-B-16	9/01/06-9/01/07	\$109,940.00
Passed thru Warren County Comm.					
Schools and Roads Cluster					
-Schools/Roads-Grants/State	I	10.665	N/A	10/1/05-9/30/06	\$856,973.06
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					

TOTAL RECEIVED FOR THE YEAR	ACCRUED/ (DEFERRED) REVENUE AT 7/1/06	REVENUE RECOGNIZED	EXPENDITURES	ACCRUED/ (DEFERRED) REVENUE AT 6/30/07
\$250,000.00	\$139,441.04	\$178,566.58	\$178,566.58	\$68,007.62
\$250,000.00	\$139,441.04	\$178,566.58	\$178,566.58	\$68,007.62
\$859,104.24	\$0.00	\$909,090.04	\$909,090.04	\$49,985.80
\$266,232.24	\$136,582.47	\$129,649.77	\$129,649.77	\$0.00
\$1,125,336.48	\$136,582.47	\$1,038,739.81	\$1,038,739.81	\$49,985.80
(\$1,111.01)	(\$1,111.01)	\$0.00	\$0.00	\$0.00
(\$1,111.01)	(\$1,111.01)	\$0.00	\$0.00	\$0.00
\$8,574.83	\$0.00	\$9,319.69	\$9,319.69	\$744.86
\$6,603.20	\$5,218.77	\$1,384.43	\$1,384.43	\$0.00
\$15,178.03	\$5,218.77	\$10,704.12	\$10,704.12	\$744.86
\$36,361.37	\$23,478.59	\$12,882.78	\$12,882.78	\$0.00
\$36,361.37	\$23,478.59	\$12,882.78	\$12,882.78	\$0.00
\$39,200.40	\$0.00	\$94,081.00	\$94,081.00	\$54,880.60
\$43,874.00	\$43,874.00	\$0.00	\$0.00	\$0.00
\$83,074.40	\$43,874.00	\$94,081.00	\$94,081.00	\$54,880.60
\$236,314.44	\$0.00	\$264,138.07	\$264,138.07	\$27,823.63
\$145,056.37	\$95,863.22	\$49,193.15	\$49,193.15	\$0.00
\$381,370.81	\$95,863.22	\$313,331.22	\$313,331.22	\$27,823.63
\$25,739.00	\$0.00	\$25,739.00	\$25,739.00	\$0.00
\$25,739.00	\$0.00	\$25,739.00	\$25,739.00	\$0.00
\$1,915,949.08	\$443,347.08	\$1,674,044.51	\$1,674,044.51	\$201,442.51
\$1,097,870.00	\$0.00	\$1,097,870.00	\$1,097,870.00	\$0.00
\$1,097,870.00	\$0.00	\$1,097,870.00	\$1,097,870.00	\$0.00
\$1,097,870.00	\$0.00	\$1,097,870.00	\$1,097,870.00	\$0.00
\$560,485.19	\$77,313.72	\$564,628.57	\$564,628.57	\$81,457.10
\$50,612.66	\$7,122.04	\$50,968.88	\$50,968.88	\$7,478.26
\$142,586.58	\$23,157.87	\$143,364.61	\$143,364.61	\$23,935.90
\$11,332.00	\$1,882.30	\$11,369.80	\$11,369.80	\$1,920.10
\$765,016.43	\$109,475.93	\$770,331.86	\$770,331.86	\$114,791.36
(\$61,944.66)	(\$9,004.34)	(\$62,338.68)	(\$62,338.68)	(\$9,398.36)
\$703,071.77	\$100,471.59	\$707,993.18	\$707,993.18	\$105,393.00
\$56,655.12	(\$35,129.04)	\$71,323.91	\$71,323.91	(\$20,460.25)
\$759,726.89	\$65,342.55	\$779,317.09	\$779,317.09	\$84,932.75
\$0.00	\$0.00	\$95,526.36	\$95,526.36	\$95,526.36
\$0.00	\$0.00	\$95,526.36	\$95,526.36	\$95,526.36
\$856,973.06	\$0.00	\$856,973.06	\$856,973.06	\$0.00
\$1,616,699.95	\$65,342.55	\$1,731,816.51	\$1,731,816.51	\$180,459.11
\$4,630,519.03	\$508,689.63	\$4,503,731.02	\$4,503,731.02	\$381,901.62

WARREN COUNTY SCHOOL DISTRICT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the year ended June 30, 2007

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 \$62,338.68 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		\$	4,503,731.02
less state expenditures			<u>-</u>
Total Federal Financial Assistance		\$	<u>4,503,731.02</u>
Programs selected for testing:			
Special Education Cluster - IDEA	84.027	\$	1,097,870.00
Nutrition Cluster	10.553/555		<u>707,993.18</u>
		\$	<u>1,805,863.18</u>
% of Total Federal Financial Assistance			<u>40.1%</u>

# Root, Spitznas & Smiley, Inc.

Certified Public Accountants

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## 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, 2007, which collectively comprise the Warren County School District's basic financial statements and have issued our report thereon dated November 16, 2007. 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.

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.

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 or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2007-1.

We noted certain matters that we reported to management of Warren County School District in a separate letter dated November 16, 2007.

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, Spitznas and Smiley, Inc.*

November 16, 2007

# Root, Spitznas & Smiley, Inc.

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## 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, 2007. 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, 2007.

## 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, Spitznas and Smiley, Inc.*

October 5, 2006

Warren County School District

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2007

**Summary of Auditors' Results:**

*Financial Statements*

1. Type of auditors' report issued: unqualified
2. Internal control over financial reporting:  
  
Material weakness(es) identified? \_\_\_\_\_ yes X no  
  
Reportable condition(s) identified  
that are not considered to be  
material weaknesses? \_\_\_\_\_ yes X 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>
84.027	IDEA
10.555	National School Lunch Program
10.553	School Breakfast Program
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

For the Year Ended June 30, 2007

**Audit Findings:**

No. 2007-1 Investments

Criteria

The Pennsylvania School Code allows school district's to make only certain types of investments, such as US Treasury Bills and certificates of deposit. The School Code focuses on minimizing investment risk rather than maximizing investment return.

Condition

The District was not in compliance with the Pennsylvania School Code. During a portion of the year, the District invested \$250,000 in various mutual funds which were not consistent with the types of investment allowed by the School Code.

Cause

The District did not consult the Pennsylvania School Code when investing its money.

Effect

The District exposed itself to a higher risk of losing part of all of its investment.

Management Comments

The School District invested several million dollars throughout the 2006-2007 fiscal year on both a temporary and longer term basis that fully complied with the investment policy of the Pennsylvania School Code. As mentioned by the auditors, during the 2006-2007 fiscal year approximately \$250,000 was inadvertently placed in an investment vehicle that did not fully comply with PA Code. Once it was determined that the particular investment vehicle was not fully in compliance, it was moved to an investment vehicle that did comply. It is management's opinion that the value of this investment was de minimis in relation to the total amount of funds invested, as well as in comparison to the total annual budget. The District lost no principal in this investment. It should also be noted that the District's investment earnings for fiscal year 2006-2007 exceeded revenue earned in 2005-2006 by \$276,114. This was a 76.6% increase over the prior year.

Warren County School District

EXIT CONFERENCE

June 30, 2007

An exit conference was held on January 16, 2008 via electronic correspondence. Participating were:

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

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

A draft of the audit report for the Warren County School District, Warren, Pennsylvania, for the year ended June 30, 2007 was discussed. Special attention was devoted to reviewing the various reports on internal controls and reports on compliance.

List of Report Distribution

Copies

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