

**WARREN COUNTY SCHOOL DISTRICT  
WARREN, PENNSYLVANIA**

**AUDIT REPORT**

**JUNE 30, 2012**

# WARREN COUNTY SCHOOL DISTRICT

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FELIX & GLOEKLER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

2306 Peninsula Drive • Erie, Pennsylvania 16506

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### **Independent Auditors' Report**

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Warren County School District as of and for the year ended June 30, 2012, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Warren County School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Warren County School District as of June 30, 2012 and the respective changes in financial position and, where applicable, cash flows, thereof, and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

**Independent Auditors' Report**  
**(Continued)**

responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Felix and Gloekler, P.C.*

Felix and Gloekler, P.C.

December 5, 2012  
Erie, Pennsylvania

**WARREN COUNTY SCHOOL DISTRICT**  
**Management Discussion and Analysis**  
**For the Year Ended June 30, 2012**

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, 2012. 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 2011-2012 include:

Total 2011-2012 general fund revenues amounted to \$65,500,116, compared to 2010-2011 total revenue of \$69,482,373. This represented a 5.70% decrease in revenues.

The general fund expenses, including transfers, of the District amounted to \$64,923,481 in 2011-2012, compared to total expenses in 2010-2011 of \$70,411,000. This represented a 7.79% decrease in expenses.

The General Fund Total Fund Balance at fiscal year ending 2011-2012 was \$4,848,379, which represented a favorable change of 576,635 (13.50%) from the prior year's fund balance of \$4,271,744. Included in the Total Fund Balance is \$850,000 for PSERS Retirement Contributions and \$500,000 for School Board and tax contingencies. The Unassigned Fund Balance of \$2,799,373 at fiscal year ending June 30, 2012 represented 4.31% of the total expenses in the fiscal year compared to the fund balance at fiscal year ended June 30, 2011, which represented 6.48% of the expenses for that period.

**USING THE ANNUAL FINANCIAL REPORT:**

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

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

The statements progress into a more detailed look at the specific financial activities during the fiscal year 2011-2012.

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 2011-2012 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 2011-2012 fiscal year. The reports will show whether the District as a whole has seen an increase or decrease in its financial position. The causes for this change may be the result of many factors, some financial, some not. Non-financial factors include the District’s property tax base, student enrollment, facility conditions, required educational programs and other factors.

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

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

The Statement of Net Assets provides the perspective of the School District taken as a whole. The School District total net assets were \$25,503,249 at June 30, 2012, compared to \$24,910,930 for 2011.

	2012 Governmental Activities	2012 Business- Type Activities	Total	2011 Governmental Activities	2011 Business- Type Activities	Total
Current assets	\$26,503,894	\$(108,816)	\$26,395,077	\$ 11,092,323	\$ (219,771)	\$ 10,872,552
Capital assets and other assets	41,716,088	207,532	41,923,620	42,158,687	235,421	42,394,108
Total Assets	<u>\$ 68,219,982</u>	<u>\$98,716</u>	<u>\$ 68,318,697</u>	<u>\$ 53,251,010</u>	<u>\$ 15,650</u>	<u>\$ 53,266,660</u>
Current and other liabilities	\$ 7,664,870	\$ 37,492	\$7,702,362	\$ 7,021,025	\$ 18,233	\$ 7,039,258
Long-term liabilities	35,113,086	-	35,113,086	21,316,472	-	21,316,472
Total Liabilities	<u>42,777,956</u>	<u>37,492</u>	<u>42,815,448</u>	<u>28,337,497</u>	<u>18,233</u>	<u>28,355,730</u>
Net Assets						
Invested in capital assets, net of related debt	22,564,865	207,532	22,772,397	22,324,709	235,421	22,560,130
Unrestricted	<u>2,877,161</u>	<u>(146,308)</u>	<u>2,730,852</u>	<u>2,588,804</u>	<u>(238,004)</u>	<u>2,350,800</u>
Total Net Assets	<u>25,442,026</u>	<u>61,224</u>	<u>25,503,249</u>	<u>24,913,513</u>	<u>(2,583)</u>	<u>24,910,930</u>

Total Liabilities & Net Assets	\$ 68,219,982	\$98,716	\$68,318,697	\$ 53,251,010	\$ 15,650	\$ 53,266,660
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The following table shows the revenues, expenses and changes in net assets for fiscal years ended 2012 and 2011:

	2012 Governmental Activities	2012 Business- Type Activities	Total	2011 Governmental Activities	2011 Business- Type Activities	Total
Revenues						
Operating grants and contributions	\$ 40,931,227	\$1,140,559	\$42,071,786	\$ 46,706,533	\$ 1,057,383	\$ 47,763,916
Charges for services	766,893	772,981	1,539,874	227,247	825,607	1,052,854
General revenues		-	-			
Property taxes	20,552,522	-	20,552,522	18,588,305	-	18,588,305
Earned income and local services taxes	2,961,666	-	2,961,666	3,159,805	-	3,159,805
Other taxes	263,959	-	263,959	270,198	-	270,198
Interest earnings	33,538	-	33,538	50,485	-	50,485
Transfers	(125,000)	125,000	-	(350,000)	350,000	-
Total Revenues	65,384,804	2,038,540	67,423,344	68,652,573	2,232,990	70,885,563
Expenses						
Instruction	39,683,495	-	39,683,495	43,121,615	-	43,121,615
Pupil personnel	1,301,817	-	1,301,817	1,370,389	-	1,370,389
Instructional student support and pupil health	2,095,190	-	2,095,190	3,732,711	-	3,732,711
Administrative/business support	4,787,324	-	4,787,324	5,421,885	-	5,421,885
Operation of plant	6,533,256	-	6,533,256	6,815,105	-	6,815,105
Student transportation	5,785,304	-	5,785,304	5,780,537	-	5,780,537
Central services	165,207	-	165,207	108,092	-	108,092
Student activities	963,076	-	963,076	1,467,817	-	1,467,817
Business services	732,497	-	732,497	37,932	-	37,932
Other	-	-	-	75,392	-	75,392
Interest on debt	234,014	-	234,014	558,817	-	558,817
Depreciation	2,521,881	-	2,521,881	2,513,963	-	2,513,963
Amortization	53,231	-	53,231	-	-	-
Refund of prior year receipts	-	-	-	7,965	-	(7,965)
Food services	-	1,974,734	1,974,734	-	2,175,714	2,175,714
Total Expenses	64,856,291	1,974,734	66,831,025	71,012,221	2,175,714	73,187,935
Increase (Decrease) In Net Assets	\$ 528,513	\$ 63,806	\$ 592,319	\$ (2,359,648)	\$ 57,276	\$ (2,302,372)

### **Governmental Activities**

Governmental activities for 2011-2012 resulted in an increase in net assets of \$528,513. The increase resulted primarily from a decrease in spending across the board in comparison to the prior year.

### **Business-Type Activities**

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

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

The analysis of the District's major funds begins on page 14. Detailed information about the District's major funds is reported through the fund financial reports. The major funds will focus on the general fund and the capital projects fund.

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

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

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

### **General Fund Revenue**

The District's revenues continue to reflect a similar basic breakdown: local (taxes and other), 38 percent; State and Federal revenues, 62 percent. The reason for the slight decrease is due to less money coming in from the federal government.

	<b>2011-2012</b>	<b>2010-2011</b>
Local Revenue	\$24,568,890(38%)	\$22,775,838 (33%)
State Revenue	\$38,820,299(59%)	\$39,270,240 (57%)
Federal & Other	\$2,110,927(3%)	\$7,436,295 (10%)
<b>TOTAL</b>	<b>\$65,500,116</b>	<b>\$69,482,373</b>

### **General Fund Expenses**

The District's program expenses are 61 percent instruction; 32 percent support; and 7 percent non-instructional (including debt payments and transfers).

	<b>2011-2012</b>	<b>2010-2011</b>
Instruction	\$39,314,998(61%)	\$42,598,516 (61%)
Support Services	\$20,761,997(32%)	\$23,138,181 (33%)
Non-Instruction & Debt	\$4,846,486(7%)	\$4,674,303 (6%)
<b>TOTAL</b>	<b>\$64,923,481</b>	<b>\$70,411,000</b>

The 2011-2012 fiscal year again saw little growth in the local economy. The numbers of appeals and eventual granting of decreased real estate assessments continue to have a significant



impact on the local real estate tax base. Consequently, the District's reliance on state and federal grants becomes more and more evident in an effort to meet program needs in order to avoid further financial hardship to the local taxpayer.

### **School District's Funds**

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

	<b>2011-2012</b>
General Fund	\$4,848,379
Capital Projects	\$15,104,799
<b>Total</b>	<b>\$19,953,178</b>

### **General Fund Budget Highlights**

The \$65,500,116 of revenues in the general fund in 2011-2012 applied against the total general fund expenditure outlay of \$64,923,481 resulted in a net increase to the fund balance of \$576,635. Although the District recognizes a fund balance of \$4,848,397, it also realizes that a liability for **post-retirement benefits** (see Note 10 to the financial statements) needs to be considered as a designation of that fund balance and \$1,350,000 is designated for other purposes (\$850,000 for PSERS retirement contributions and \$500,000 for Board contingencies).

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

	<b>2011-2012</b>	<b>2010-2011</b>
Contribution to Capital Resv	\$500,000	\$ 368,820
Debt Service Payments	\$3,254,325	\$ 2,589,015
<b>TOTAL</b>	<b>\$3,754,325</b>	<b>\$ 2,957,835</b>

For 2012, the Athletic Fund is combined with the General Fund.

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

At the end of fiscal year 2011-2012, the District had approximately \$41.9 million invested in land, buildings, equipment and construction-in-process (\$81.9 million, less accumulated depreciation of \$40 million).

### **Debt Administration**

The existing bonds payable at June 30, 2012 totaled \$34,190,000. The debt payments for the fiscal year totaled \$3,254,325.

At June 30, 2012, the District's non-electoral limit for debt (225% of borrowing base) was \$148 million, less existing debt of \$34 million, leaves the District with a borrowing capacity of \$114 million.

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

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

### **Contacting the District's Financial Management**

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

# WARREN COUNTY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2012

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Current Assets			
Cash and cash equivalents	\$ 4,673,284	\$ 24,224	\$ 4,697,508
Investments	15,525,252	-	15,525,252
Taxes receivable, net	3,129,340	-	3,129,340
Internal balances	425,924	(425,924)	-
Due from other governments	877,253	167,031	1,044,284
Other receivables	1,139,162	76,727	1,215,889
Inventories	-	6,819	6,819
Prepaid expenses	699,006	42,306	741,312
Other current assets	34,673	-	34,673
Total Current Assets	<u>26,503,894</u>	<u>(108,817)</u>	<u>26,395,077</u>
Noncurrent Assets			
Deferred charges	481,230	-	481,230
Land	498,983	-	498,983
Construction in progress	1,944,471	-	1,944,471
Capital assets, net	<u>38,791,404</u>	<u>207,532</u>	<u>38,998,936</u>
Total Noncurrent Assets	<u>41,716,088</u>	<u>207,532</u>	<u>41,923,620</u>
Total Assets	<u>\$ 68,219,982</u>	<u>\$ 98,715</u>	<u>\$ 68,318,697</u>
<b>Liabilities and Net Assets</b>			
Current Liabilities			
Accounts payable	\$ 1,608,742	\$ 20,377	\$ 1,629,119
Current portion of long-term debt	2,810,000	-	2,810,000
Accrued salaries and benefits	1,735,553	1,306	1,736,859
Payroll deductions and withholdings	933,213	-	933,213
Other current liabilities	<u>577,356</u>	<u>15,809</u>	<u>593,165</u>
Total Current Liabilities	<u>7,664,864</u>	<u>37,492</u>	<u>7,702,356</u>
Noncurrent Liabilities			
Bonds payable	31,380,000	-	31,380,000
Other post-employment benefits	3,250,520	-	3,250,520
Long-term portion of compensated absences	<u>482,572</u>	<u>-</u>	<u>482,572</u>
Total Noncurrent Liabilities	<u>35,113,092</u>	<u>-</u>	<u>35,113,092</u>
Total Liabilities	<u>42,777,956</u>	<u>37,492</u>	<u>42,815,448</u>
Net Assets			
Invested in capital assets net of debt	22,564,865	207,532	22,772,397
Unrestricted (deficit)	<u>2,877,161</u>	<u>(146,309)</u>	<u>2,730,852</u>
Total Net Assets	<u>25,442,026</u>	<u>61,223</u>	<u>25,503,249</u>
Total Liabilities and Net Assets	<u>\$ 68,219,982</u>	<u>\$ 98,715</u>	<u>\$ 68,318,697</u>

The accompanying notes are an integral part of these statements.

# WARREN COUNTY SCHOOL DISTRICT

## Statement of Activities

For the Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<u>Governmental Activities</u>				
Instruction	\$ 42,258,606	\$ 766,893	\$ 36,867,293	\$ -
Pupil personnel	1,301,817	-	76,614	-
Instructional student support	2,095,190	-	123,305	-
Administrative and financial support	4,087,443	-	240,552	-
Pupil health	699,881	-	136,328	-
Operation and maintenance of plant services	6,533,256	-	115,637	-
Student transportation	5,785,304	-	3,303,865	-
Central services	165,207	-	9,712	-
Student and community activities	963,076	-	14,812	-
Business services	732,497	-	43,109	-
Interest on debt	234,014	-	-	-
Total Governmental Activities	<u>64,856,291</u>	<u>766,893</u>	<u>40,931,227</u>	<u>-</u>
<u>Business-Type Activities</u>				
Food service	1,974,734	772,981	1,140,559	-
Total Business-Type Activities	<u>1,974,734</u>	<u>772,981</u>	<u>1,140,559</u>	<u>-</u>
Total Primary Government	<u>\$ 66,831,025</u>	<u>\$ 1,539,874</u>	<u>\$ 42,071,786</u>	<u>\$ -</u>
General Revenues:				
Taxes				
Property taxes				
Earned income and local services tax				
Public utility realty				
Interest earnings				
Transfers				
Total General Revenues				
Change in Net Assets				
Net Assets, July 1, 2011				
Net Assets, June 30, 2012				

The accompanying notes are an integral part of these statements.

**Net (Expense)/Revenue and Changes in Net Assets**

<b>Governmental Activities</b>	<b>Business- Type Activities</b>	<b>Total</b>
\$ (4,624,420)	\$ -	\$ (4,624,420)
(1,225,203)	-	(1,225,203)
(1,971,885)	-	(1,971,885)
(3,846,891)	-	(3,846,891)
(563,553)	-	(563,553)
(6,417,619)	-	(6,417,619)
(2,481,439)	-	(2,481,439)
(155,495)	-	(155,495)
(948,264)	-	(948,264)
(689,388)	-	(689,388)
(234,014)	-	(234,014)
<u>(23,158,171)</u>	<u>-</u>	<u>(23,158,171)</u>
-	(61,194)	(61,194)
-	(61,194)	(61,194)
<u>(23,158,171)</u>	<u>(61,194)</u>	<u>(23,219,365)</u>
20,552,522	-	20,552,522
2,961,666	-	2,961,666
263,959	-	263,959
33,538	-	33,538
(125,000)	125,000	-
<u>23,686,684</u>	<u>125,000</u>	<u>23,811,684</u>
528,513	63,806	592,319
<u>24,913,513</u>	<u>(2,583)</u>	<u>24,910,930</u>
<u>\$ 25,442,026</u>	<u>\$ 61,223</u>	<u>\$ 25,503,249</u>

# WARREN COUNTY SCHOOL DISTRICT

## Balance Sheet Governmental Funds June 30, 2012

	General Fund	Capital Projects	Debt Service	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 4,084,524	\$ 588,760	\$ -	\$ 4,673,285
Investments	484,321	15,040,931	-	15,525,252
Taxes receivable, gross	2,976,006	-	-	2,976,006
Due from other funds	650,138	-	-	650,138
Due from proprietary fund	425,924	-	-	425,924
Intergovernmental receivables	877,253	-	-	877,253
Other receivables	1,012,475	126,686	-	1,139,161
Prepaid expenses	699,006	-	-	699,006
Other current assets	34,673	-	-	34,673
<b>Total Assets</b>	<b>\$ 11,244,320</b>	<b>\$ 15,756,377</b>	<b>\$ -</b>	<b>\$ 27,000,697</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Due to other funds	\$ -	\$ 650,138	\$ -	\$ 650,138
Accounts payable	1,607,302	1,440	-	1,608,742
Accrued salaries and benefits	1,735,553	-	-	1,735,553
Payroll deductions and withholdings	933,213	-	-	933,213
Deferred revenues	2,040,065	-	-	2,040,065
Other current liabilities	79,808	-	-	79,808
<b>Total Liabilities</b>	<b>6,395,941</b>	<b>651,578</b>	<b>-</b>	<b>7,047,519</b>
<b>Fund Balances</b>				
Restricted for capital projects	-	15,104,799	-	15,104,799
Nonspendable	699,006	-	-	699,006
Committed to:				
Retirement	850,000	-	-	850,000
Tax and school board contingencies	500,000	-	-	500,000
Unassigned	2,799,373	-	-	2,799,373
<b>Total Fund Balances</b>	<b>4,848,379</b>	<b>15,104,799</b>	<b>-</b>	<b>19,953,178</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 11,244,320</b>	<b>\$ 15,756,377</b>	<b>\$ -</b>	<b>\$ 27,000,697</b>

The accompanying notes are an integral part of these statements.

**WARREN COUNTY SCHOOL DISTRICT**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**to the Statement of Net Assets**  
**June 30, 2012**

Total fund balances - governmental funds		\$ 19,953,178
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 \$ 81,177,703, and the accumulated depreciation is \$39,942,845		41,234,858
Deferred charges		481,230
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.		2,040,065
An estimate of uncollectible real estate taxes receivable is not recorded in the funds.		(141,666)
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	\$ (34,190,000)	
Accrued interest on the bonds	(162,224)	
Other post-employment benefits	(3,250,520)	
Compensated absences	<u>(817,895)</u>	(38,420,639)
Earned income taxes collected are accrued, but are not available for the current period's expenditures and, therefore, are not revenue in the funds.		<u>295,000</u>
Total Net Assets - Governmental Activities		<u><u>\$ 25,442,026</u></u>

The accompanying notes are an integral part of these statements.

**WARREN COUNTY SCHOOL DISTRICT**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2012**

	General Fund	Capital Projects	Debt Service	Total Governmental Funds
Revenues				
Local sources				
Property taxes	\$ 19,264,397	\$ -	\$ -	\$ 19,264,397
Income and other taxes	3,225,625	-	-	3,225,625
Other local sources	2,078,868	9,688	-	2,088,556
State sources	38,820,299	-	-	38,820,299
Federal sources	2,110,927	-	-	2,110,927
Total Revenues	65,500,116	9,688	-	65,509,804
Expenditures				
Instruction	39,314,998	-	-	39,314,998
Support services	20,761,997	-	-	20,761,997
Noninstructional services	963,077	-	-	963,077
Capital outlay	-	2,279,443	-	2,279,443
Bond issuance costs	-	-	-	-
Debt service (principal and interest)	-	-	3,254,325	3,254,325
Total Expenditures	61,040,072	2,279,443	3,254,325	66,573,839
Excess (Deficiency) of Revenues Over Expenditures	4,460,044	(2,269,754)	(3,254,325)	(1,064,035)
Other Financing Sources (Uses)				
Interfund transfers	(3,754,325)	500,000	3,254,325	-
Bond proceeds	-	16,200,000	-	16,200,000
Transfer to proprietary fund	(125,000)	-	-	(125,000)
Refunds of prior year receipts	(4,084)	-	-	(4,084)
Total Other Financing Sources (Uses)	(3,883,409)	16,700,000	3,254,325	16,070,916
Net Change in Fund Balances	576,635	14,430,246	-	15,006,881
Fund Balance, July 1, 2011	4,271,744	674,553	-	4,946,297
Fund Balance, June 30, 2012	\$ 4,848,379	\$ 15,104,799	\$ -	\$ 19,953,178

The accompanying notes are an integral part of these statements.



**WARREN COUNTY SCHOOL DISTRICT**  
**Reconciliation of the Governmental Funds' Statement of Revenues,**  
**Expenditures and Changes in Fund Balance**  
**to the Statement of Activities**  
**For the Year Ended June 30, 2012**

Total net change in fund balances - governmental funds		\$ 15,006,881
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeds capital outlays in the period.		
Depreciation and amortization expense	\$ (2,575,111)	
Loss on disposal of assets	(532,115)	
Capital outlays	<u>2,130,168</u>	(977,058)
Bond proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net assets.		(16,200,000)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		3,221,321
Other:		
Change in accrued interest payable		33,004
Change in compensated absences		136,677
Change in OPEB liability		(458,297)
Change in bond issue costs		<u>(234,015)</u>
Change in Net Assets of Governmental Activities		<u><u>\$ 528,513</u></u>

The accompanying notes are an integral part of these statements.

**WARREN COUNTY SCHOOL DISTRICT**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual - General Fund**  
**For the Year Ended June 30, 2012**

	Budgeted Amounts			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Local revenues	\$ 26,818,332	\$ 24,083,578	\$ 24,568,890	\$ 485,312
State program revenues	35,816,866	38,551,620	38,820,299	268,679
Federal program revenues	3,720,385	3,720,385	2,110,927	(1,609,458)
Total Revenues	66,355,583	66,355,583	65,500,116	(855,467)
Expenditures				
Regular programs	29,237,711	29,237,711	28,770,499	467,212
Special programs	8,909,114	8,909,114	8,766,435	142,679
Vocational programs	1,474,266	1,474,266	1,441,155	33,111
Other instructional programs	294,005	294,005	336,910	(42,905)
Pupil personnel services	1,242,229	1,242,229	1,301,817	(59,588)
Instructional staff services	2,260,765	2,260,765	2,095,190	165,575
Administrative services	3,960,531	3,960,531	4,087,443	(126,912)
Pupil health	671,420	671,420	699,881	(28,461)
Business services	760,684	760,684	732,497	28,187
Operation and maintenance of plant services	6,221,280	6,221,280	5,894,658	326,622
Student transportation services	5,565,785	5,565,785	5,785,304	(219,519)
Central and other support services	89,287	89,287	165,027	(75,740)
Media services	78,090	78,090	180	77,910
Student activities	349,463	349,463	237,308	112,155
Athletics	626,300	626,300	711,580	(85,280)
Community services	21,511	21,511	14,188	7,323
Debt service	3,280,043	3,280,043	3,254,325	25,718
Total Expenditures	65,042,484	65,042,484	64,294,397	748,087
Excess (Deficiency) of Revenues Over Expenditures	1,313,099	1,313,099	1,205,719	(107,380)
Other Financing Sources (Uses)				
Fund transfers	(1,000,000)	(1,000,000)	(625,000)	(375,000)
Contingencies	-	-	-	-
Refund of prior year's receipts	-	-	(4,084)	4,084
Budgetary reserve	(1,180,000)	(1,180,000)	-	(1,180,000)
Total Other Financing Sources (Uses)	(2,180,000)	(2,180,000)	(629,084)	(1,550,916)
Net Change in Fund Balances	(866,901)	(866,901)	576,635	1,443,536
Fund Balance - July 1, 2011	4,229,679	4,229,679	4,271,744	42,065
Fund Balance - June 30, 2012	\$ 3,362,778	\$ 3,362,778	\$ 4,848,379	\$ 1,485,601

The accompanying notes are an integral part of these statements.

# WARREN COUNTY SCHOOL DISTRICT

## Statement of Net Assets

### Proprietary Funds

June 30, 2012

	<u>Food Service</u>
Assets	
Current Assets	
Cash and cash equivalents	\$ 24,224
Due from other governments	167,031
Other receivables	76,728
Inventories	6,819
Prepaid expenses	<u>42,307</u>
Total Current Assets	<u>317,108</u>
Noncurrent Assets	
Machinery and equipment, net	<u>207,532</u>
Total Noncurrent Assets	<u>207,532</u>
Total Assets	<u><u>\$ 524,640</u></u>
Liabilities and Net Assets	
Current Liabilities	
Due to other funds	\$ 425,924
Accrued salaries and benefits	1,306
Student deposits	15,809
Accounts payable	<u>20,377</u>
Total Current Liabilities	<u>463,416</u>
Total Liabilities	<u>463,416</u>
Net Assets	
Invested in capital assets, net of debt	207,532
Unrestricted	<u>(146,308)</u>
Total Net Assets	<u>61,224</u>
Total Liabilities and Net Assets	<u><u>\$ 524,640</u></u>

The accompanying notes are an integral part of these statements.

**WARREN COUNTY SCHOOL DISTRICT**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2012**

	<u>Food Service</u>
Operating Revenues:	
Food service revenue	<u>\$ 772,981</u>
Total Operating Revenues	<u>772,981</u>
Operating Expenses:	
Salaries	558,034
Employee benefits	341,405
Other purchased services	1,004,092
Depreciation	44,583
Other operating expenditures	<u>26,620</u>
Total Operating Expenses	<u>1,974,733</u>
Operating Income (Loss)	<u>(1,201,752)</u>
Nonoperating Revenues (Expenses)	
State sources	87,869
Federal sources	<u>1,052,689</u>
Total Nonoperating Revenues (Expenses)	<u>1,140,559</u>
Change in Net Assets before Transfers	(61,193)
Transfers in	<u>125,000</u>
Change in Net Assets	63,807
Net Assets, June 30, 2011	<u>(2,583)</u>
Net Assets, June 30, 2012	<u><u>\$ 61,224</u></u>

The accompanying notes are an integral part of these statements.

**WARREN COUNTY SCHOOL DISTRICT**  
**Combined Statement of Cash Flows**  
**Proprietary Fund Type**  
**For the year ended June 30, 2012**

	<u>Food Service</u>
Cash Flows From Operating Activities	
Cash received from users	\$ 818,954
Cash received from advanced student sales	15,809
Cash payments to employees for services	(899,438)
Cash payments to suppliers for goods and services	(1,120,338)
Cash payments for other operating expenses	<u>(26,620)</u>
Net Cash Provided By (Used For) Operating Activities	<u>(1,211,634)</u>
Cash Flows From Non-Capital Financing Activities	
State sources	86,477
Federal sources	1,020,447
Transfers in	<u>125,000</u>
Net Cash Provided By (Used For) Non-Capital Financing Activities	<u>1,231,924</u>
Cash Flows From Capital and Related Financing Activities	
Equipment purchase	<u>(16,694)</u>
Net Cash Provided By (Used For) Capital and Related Financing Activities	<u>(16,694)</u>
Net Increase in Cash and Cash Equivalents	3,597
Cash and Cash Equivalents at Beginning of Year	<u>20,627</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 24,224</u></u>
Reconciliation of Operating Income to Net Cash (Used For)	
Operating activities	
Operating income (loss)	<u>\$ (1,201,752)</u>
Depreciation and net amortization	44,583
(Increase) decrease in accounts receivable	45,972
(Increase) decrease in prepaid expenses	(34,326)
(Increase) in other current assets	15,419
Increase (decrease) in accounts payable	3,840
(Decrease) increase in due to other funds	<u>(85,369)</u>
Total Adjustments	<u>(9,881)</u>
Cash Provided By (Used For) Operations	<u><u>\$ (1,211,633)</u></u>

The accompanying notes are an integral part of these statements.

# WARREN COUNTY SCHOOL DISTRICT

## Statement of Net Assets

### Fiduciary Funds

June 30, 2012

	Agency Funds		Trust Funds	Total
	Student Activities	Earned Income Tax Office		
Assets				
Cash and cash equivalents	\$ 178,572	\$ 1,227,174	\$ 28,839	\$ 1,434,585
Investments	-	-	234,359	234,359
Total Assets	<u>\$ 178,572</u>	<u>\$ 1,227,174</u>	<u>\$ 263,198</u>	<u>\$ 1,668,944</u>
Liabilities and Net Assets				
Liabilities				
Accounts payable	\$ 178,572	\$ 1,227,174	\$ -	\$ 1,405,746
Total Liabilities	<u>178,572</u>	<u>1,227,174</u>	<u>-</u>	<u>1,405,746</u>
Net Assets				
Restricted by trust agreements	-	-	263,198	263,198
Total Net Assets	<u>-</u>	<u>-</u>	<u>263,198</u>	<u>263,198</u>
Total Liabilities and Net Assets	<u>\$ 178,572</u>	<u>\$ 1,227,174</u>	<u>\$ 263,198</u>	<u>\$ 1,668,944</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, 2012**

	<u>Trust Funds</u>
Additions	
Gifts and contributions	\$ 40,618
Earnings/(loss) on investments	<u>6,041</u>
	<u>46,659</u>
Deductions	
Scholarships/withdrawals	<u>(19,014)</u>
Change in Net Assets	27,645
Net Assets, July 1, 2011	<u>235,553</u>
Net Assets, June 30, 2012	<u><u>\$ 263,198</u></u>

The accompanying notes are an integral part of these statements.

**WARREN COUNTY SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2012**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Financial Reporting Entity**

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

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

**B. Fund Accounting**

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

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



## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The District reports the following major governmental funds:

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

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

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

The government reports the following major enterprise funds:

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

Additionally, the District reports the following funds:

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

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

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### C. Basis of Presentation

#### Government-Wide Financial Statements

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

The government-wide financial statements are reported using the *economic resources measurement focus*. This is the same approach used in the preparation of proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each identifiable activity of the business-type and for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and are, therefore, clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. All taxes and revenues not classified as program revenues are presented as general revenues of the District.

#### Fund Financial Statements

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

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

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

### **D. Basis of Accounting**

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

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

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

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

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

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

### **E. Property Taxes**

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

The District levied real estate taxes of \$19,264,397 on July 1, 2012 based on a gross taxable valuation of \$455,563,680 at 48.96 mills. Taxes are collectible through May 1 each year. Subsequent to that date, taxes are turned over to the Warren County Tax Claim Bureau and the property is liened.

### **F. Budgets and Budgetary Accounting**

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

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

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

g. Unencumbered appropriations lapse at year end.

### **G. Encumbrances**

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

### **H. Cash and Cash Equivalents**

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

### **I. Investments**

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

### **J. Inventory**

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

### **K. Capital Assets and Depreciation**

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

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

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

### **L. Interfund Transactions**

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

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

### **M. Compensated Absences**

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

For governmental funds, vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the appropriate fund. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available resources are not reported in the fund financial statements. Unpaid compensated absences consist of \$636,948 for unused sick pay and \$180,947 for accumulated vacation pay.

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **N. Accrued Liabilities and Long-Term Debt**

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

### **O. Concentration of Credit Risk**

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

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

### **P. Estimates in Financial Statements**

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

### **Q. Retirement Plan**

#### Plan Description

The School District contributes to a governmental cost-sharing multiple-employer defined benefit pension plan administered by the Public School Employee Retirement System (PSERS). Benefit provisions of the Plan are established under the provisions of the PSERS Code (the Code) and may be amended by an act of the Pennsylvania State Legislature. The Plan provides retirement, disability and death benefits, legislatively mandated ad hoc cost-of-living adjustments, and healthcare insurance premium assistance to qualifying plan members and beneficiaries. It also provides for refunds of a member's accumulated contribution upon termination of a member's employment in the public school sector. PSERS issues a publicly available financial report that includes financial statements for the Plan. That report may be obtained by writing to PSERS, P. O. Box 125, Harrisburg, Pennsylvania 17108-0125.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Funding Policy

Public School Employees' Retirement System has four membership classes: T-C, T-D, T-E and T-F. The rate of the contribution an employee pays toward his account is based on the date of hire and/or membership class selected as follows:

- A Class T-C member who enrolled before July 22, 1983 has a contribution rate of 5.25 percent. A Class T-D member who enrolled before July 22, 1983 has a contribution rate of 6.50 percent.
- A Class T-C member enrolled on July 22, 1983 through and including June 30, 2011 will have a contribution rate of 6.50 percent. A Class T-D member who enrolled on July 22, 1983 through and including June 30, 2011 will have a contribution rate of 7.50 percent.

Those who become members for the first time on or after July 1, 2011 may choose between two classes of membership in the System.

- A Class T-E member's base employee contribution rate with "shared risk" contribution levels may fluctuate between 7.50 and 9.50 percent.
- A Class T-F member's base employee contribution rate with "shared risk" contribution levels may fluctuate between 10.30 and 12.30 percent.

For fiscal year ended June 30, 2012, the rate of employee contribution was 8.65 percent of covered payroll.

The School District's contributions to the System for the years ending June 30, 2012, 2011, and 2010 were \$2,610,380, \$2,177,358, and \$2,188,425, respectively, equal to the required contributions for each year.

### Shared Risk

With a "shared risk" program, Class T-E and Class T-F members benefit when investments of the fund are doing well and share some of the risk when investments under-perform. With a Class T-E or Class T-F, your contribution rate will stay within the specified range, but may increase or decrease by 0.50 percent within the specified range every three years, starting on July 1, 2015. The member contribution rate will never go below the base rate or above the highest percentage rate.



## NOTE 2 - NON-POOLED CASH AND INVESTMENTS

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

### A. Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned. As of June 30, 2012, the bank balance of the District's deposits that are exposed to custodial credit risk is \$6,039,632 and their carrying amount is \$4,697,508. These amounts are uninsured. However, they are collateralized with securities held by the trust department or agent but not in the District's name.

#### Reconciliation to Financial Statements

Insured amount	\$ 250,630
Uninsured and collateralized held by the pledging bank's Trust Department not in the District's name	6,039,632
Plus: Deposits in transit	1,527,799
Less: outstanding checks	(3,129,188)
Ending amount of cash in banks	4,688,873
Plus: petty cash	8,636
Total cash per financial statements	\$ 4,697,508

### B. Investments

As of June 30, 2012, the District had the following investments:

Investment	Maturities	Fair Value
<u>General Fund</u>		
PA Local Gov't Investment Trust	N/A	\$ 1,526
Cash held by Broker	N/A	482,795
<u>Capital Projects</u>		
CD's – FDIC	7/12 – 2/14	1,340,000
Federal Agency Bonds/Notes	9/12 – 3/14	12,630,046
PLGIT Money Market	N/A	1,070,885
Total investments		<u>\$15,525,252</u>

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

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

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

Custodial Credit Risk - For an investment, custodial risk is the risk that, in the event of a bank failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2012, all of the District's investments are held by the broker or dealer, or by its trust department or agent, but not in the District's name.

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

## NOTE 3 - TAXES RECEIVABLE

Taxes receivable consist of the following at June 30, 2012:

	Government- Wide Statements	Fund Statements
Delinquent real estate taxes	\$ 2,931,966	\$2,931,966
Delinquent per capita	44,040	44,040
Earned income tax	295,000	-
Allowance for doubtful accounts	( 141,666)	-
	<u>\$3,129,340</u>	<u>\$2,976,006</u>

In accordance with the modified accrual basis of accounting, the above has been recognized as revenue only to the extent that they are measurable and available. Accordingly, \$2,040,000 of the delinquent real estate taxes deemed not available as of June 30, 2012 has been recorded as deferred revenue on the governmental funds balance sheet.

**NOTE 4 - INTERGOVERNMENTAL RECEIVABLES**

Amounts due from other governments consist of the following:

	General Fund	Food Service Fund	Total
Federal	\$241,796	\$ 154,119	\$395,915
State	635,457	12,912	648,369
	<u>\$877,253</u>	<u>\$167,031</u>	<u>\$1,044,284</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

Interfund receivables and payables on the fund statements at June 30, 2012 consist of the following:

	Interfund Receivable	Interfund Payable
General fund	\$1,076,062	\$ -
Capital Project fund	-	650,138
Food Service fund	-	425,924
	<u>\$1,076,062</u>	<u>\$1,076,062</u>

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

Interfund transfers on the fund statements at June 30, 2012 consist of the following:

	Transfer In	Transfer Out
General fund	\$ -	\$3,754,325
Capital Project fund	500,000	-
Debt Service fund	3,254,325	-
	<u>\$3,754,325</u>	<u>\$3,754,325</u>

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

## NOTE 6 - CAPITAL ASSETS

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

	June 30, 2011	Additions	Deletions	June 30, 2012
<b>Governmental Activities</b>				
Capital assets not depreciated:				
Construction in progress	\$ 762,830	\$1,181,641	\$ -	\$1,944,471
Land	498,983	-	-	498,983
Total Capital Assets not Depreciated	<u>\$ 1,261,813</u>	<u>\$1,181,641</u>	<u>\$ -</u>	<u>\$2,443,454</u>
Capital assets depreciated:				
Buildings and improvements	\$ 66,192,521	\$ 399,235	\$ -	\$ 66,591,756
Furniture and equipment	12,513,435	549,292	(920,234)	12,142,493
Total Assets Depreciated	<u>78,705,956</u>	<u>948,527</u>	<u>(920,234)</u>	<u>78,734,249</u>
Less accumulated depreciation				
Buildings and improvements	(30,373,107)	(1,438,215)	-	(31,811,322)
Furniture and equipment	<u>(7,435,977)</u>	<u>(1,083,666)</u>	<u>388,119</u>	<u>(8,131,524)</u>
Total Accumulated Depreciation	<u>(37,809,083)</u>	<u>(2,521,881)</u>	<u>388,119</u>	<u>(39,942,846)</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 40,896,873</u>	<u>\$(1,573,354)</u>	<u>\$ (532,115)</u>	<u>\$ 38,791,404</u>
<b>Business-Type Activities</b>				
Capital assets being depreciated:				
Equipment	\$ 1,248,032	\$ 16,694	\$ -	\$ 1,264,726
Less: accumulated depreciation	<u>(1,012,611)</u>	<u>(44,583)</u>	<u>-</u>	<u>(1,057,194)</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 235,421</u>	<u>\$ (27,889)</u>	<u>\$ -</u>	<u>\$ 207,532</u>

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

## NOTE 7 - OTHER CURRENT LIABILITIES

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

Accrued interest payable	\$ 162,224
Retirees' prepaid health insurance	79,808
Current portion of compensated absences	<u>335,323</u>
	<u>\$ 577,356</u>

## **NOTE 8 - NONCURRENT LIABILITIES**

### **A. General Obligation Bonds**

The General Obligation Bonds consist of the following as of June 30, 2012:

#### Series of 2010

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

#### Series of 2008

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

### **B. Lease Obligations**

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

### **C. Qualified Zone Academy Bond (QZAB)**

#### Series D of 2011

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

## NOTE 8 - NONCURRENT LIABILITIES (CONTINUED)

The changes in noncurrent liabilities for the year ended June 30, 2012 consist of the following:

	Balance at June 30, 2011	Increases	Decreases	Balance at June 30, 2012	Due in One Year
QZAB Bond Series of 2011	\$ -	\$ 16,200,000	\$ -	\$ 16,200,000	\$ 5,000
General Obligation Bonds, Series of					
2008	8,125,000	-	(1,535,000)	6,590,000	1,590,000
2010	12,320,000	275,000	(1,195,000)	11,400,000	1,215,000
	<u>20,445,000</u>	<u>275,000</u>	<u>(2,730,000)</u>	<u>17,990,000</u>	<u>2,805,000</u>
Compensated Absences					
Sick pay	825,873	-	(188,925)	636,948	86,171
Vacation pay	128,699	52,248	-	180,947	249,152
	<u>954,572</u>	<u>52,248</u>	<u>(188,925)</u>	<u>817,895</u>	<u>335,323</u>
	21,399,572	<u>\$ 16,527,248</u>	<u>\$(2,918,925)</u>	35,007,895	<u>\$ 3,145,323</u>
Less: Current Portion	<u>(2,875,323)</u>			<u>( 3,145,323 )</u>	
	<u>\$ 18,524,249</u>			<u>\$31,862,572</u>	

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

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 2,810,000	\$ 1,280,800	\$ 4,090,800
2014	2,885,000	1,203,762	4,088,762
2015	2,840,000	1,138,100	3,978,100
2016	2,880,000	1,086,600	3,966,600
2017	2,950,000	1,036,000	3,986,000
2018-2022	11,230,000	4,635,987	15,865,987
2023-2027	5,895,000	4,205,177	10,100,177
2028-2030	2,700,000	2,497,068	5,197,068
	<u>\$34,190,000</u>	<u>\$17,083,494</u>	<u>\$51,273,494</u>

## NOTE 9 – NET ASSETS AND FUND BALANCE

### A. Fund Balance

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

- *Restricted* - Amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Nonspendable* - The nonspendable fund balance classification includes amounts that cannot be spent because they are either (1) not in spendable form, or (2) legally or contractually required to be maintained intact. The District's nonspendable fund balance consists of prepaid expenses and inventories.
- *Committed* - Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. The School Board of Directors has committed a portion of fund balance to cover projected future increase in PSERS pension contributions, other post-employment benefits, unemployment expenses, and capital projects.
- *Unassigned* – This classification consists of amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned balance.

The School's GASB 54 Fund Balance Policy is to apply expenditures against any nonspendable funds, restricted fund balance, committed fund balance, assigned fund balance, and then unassigned fund balance.

The government-wide financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted.

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation
- *Unrestricted Net Assets* – This category represents net assets of the School not restricted for any project or other purpose.

## NOTE 10 - POST-EMPLOYMENT BENEFITS

### Plan Description

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

Benefit coverage as a retiree will be equivalent (single or dependent coverage) to that held by the individual at the time of retirement. As of June 30, 2012, 141 retired employees are covered under the Plan. The School District's expenses for benefits were \$1,406,408 in the year ended June 30, 2012.

### Funding Policy

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

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

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

Annual required contribution (ARC)	\$1,910,474
Interest on net OPEB obligation	125,650
Adjustment to ARC	( 171,419 )
Annual OPEB cost	<u>1,864,705</u>
Contribution made	( 1,406,408 )
Increase in net OPEB obligation	458,297
Net OPEB obligation - beginning of year	<u>2,792,223</u>
Net OPEB obligation - end of year	<u>\$3,250,520</u>



**NOTE 10 - POST-EMPLOYMENT BENEFITS (CONTINUED)**

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

Fiscal Year Ending	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
June 30, 2012	1,864,705	75.4%	3,250,520
June 30, 2011	2,213,923	60.2%	2,792,223
June 30, 2010	2,184,262	60.2%	1,890,477
June 30, 2009	2,209,506	53.8%	1,021,287

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

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

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

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- (b)	Unfunded Actuarial Accrued Liability (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
July 1, 2012	N/A	\$ 19,070,028	\$ 19,070,028	0.00%	\$ 25,948,356	73%
July 1, 2008	N/A	20,871,113	20,871,113	0.00%	35,688,718	58%
July 1, 2007	N/A	N/A	N/A	N/A	N/A	N/A

N/A - not applicable

**NOTE 11 - RISK MANAGEMENT**

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

**NOTE 12 - CONTINGENT LIABILITIES**

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

**NOTE 13 - EVALUATION OF SUBSEQUENT EVENTS**

The School District has evaluated subsequent events through December 5, 2012, the date which the financial statements were available to be issued.