

**COUNTY OF WARREN,
PENNSYLVANIA**

*Basic Financial Statements, Required Supplementary
Information, Supplemental Schedules and Federal
Financial Assistance Information for the Year Ended
December 31, 2012 and Independent Auditors' Reports*

COUNTY OF WARREN, PENNSYLVANIA
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FINANCIAL SECTION



Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of County Commissioners
County of Warren, Pennsylvania:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of County of Warren, Pennsylvania (the "County") as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Warren Library Association or the Rouse Estate, which are shown as discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units, is based solely on the reports of the other auditors. 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 from material misstatement. The financial statements of the Warren Library Association and the Rouse Estate were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our audit and the reports of other auditors, except for the effects of such adjustments, if any, as might have been determined necessary had the financial statements of the County's component unit, the Warren Library Association, been prepared on a basis of accounting consistent with accounting principles generally accepted in the United States of America, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the County, as of December 31, 2012, and the respective changes in financial position and the respective budgetary comparison of the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the County's component unit, the Warren Library Association, have been prepared on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, as listed in the foregoing table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The combining and individual fund financial statements and supplemental schedules, as listed in the foregoing table of contents, including the schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*, are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and supplemental schedules, as listed in the foregoing table of contents, including the schedule of expenditures of federal awards, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and the other auditors. In our opinion, the combining and individual fund financial statements and supplemental schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2013 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.



August 27, 2013

(April 25, 2013 as to the Rouse Estate, August 9, 2013 as to the Warren Library Association)

COUNTY OF WARREN, PENNSYLVANIA
Management's Discussion and Analysis
Year Ended December 31, 2012

As management of the County of Warren, Pennsylvania (the "County"), we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the year ended December 31, 2012. This document should be read in conjunction with additional information that we have furnished in the County's financial statements, which follow this narrative. Certain amounts have been reclassified to comply with the current year presentation.

Financial Highlights

- ◆ The County's governmental activities net position increased \$2,026 as a result of this year's activity.
- ◆ The assets and deferred outflows of resources of the primary government of the County exceeded its liabilities at the close of the fiscal year by \$6,462,315 (net position). Of this amount, \$2,002,854 (unrestricted net position) may be used to meet the County's ongoing operations.
- ◆ At the close of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$5,511,587, a decrease of \$6,748 in comparison with the prior year, which was attributed to controlling costs during the year. Approximately 31.8 percent of this amount, \$1,754,836, is available for spending at the government's discretion (unassigned fund balance).
- ◆ The General Fund reported a net increase in fund balance this year of \$9,996. At December 31, 2012, unassigned fund balance for the General Fund was \$1,754,836, or 13.3 percent of total General Fund expenditures.
- ◆ During the year ended December 31, 2012, the County's total bonded indebtedness decreased by \$490,000.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide the reader with a broad overview of the County's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the County's financial status as a whole.

The *statement of net position* presents information on all of the County's assets, liabilities, and deferred inflows/outflows of resources with the differences reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The *statement of activities* presents information showing how the County's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the County include general government, public safety, public works, human services, culture and recreation, and conservation and development.

The government-wide financial statements include not only the County itself (known as the *primary government*), but also legally separate entities, the Rouse Estate and the Warren Library Association for which the County is financially accountable. Financial information for these *component units* is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 11-12 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The County has two kinds of funds:

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The County maintains fifteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Debt Service Fund, which are considered to be major funds. Data from the other thirteen funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The County adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 13-17 of this report.

Fiduciary funds. *Fiduciary funds* are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the County's own programs.

The fiduciary fund financial statements can be found on pages 18-19 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20-44 of this report.

Other information. As stated earlier, the financial statements include a section with combining statements that provide details about our nonmajor governmental funds, which are added together and presented in a single column in the basic financial statements.

The supplemental financial statements can be found following the notes to the financial statements on pages 45-50 of this report.

Additionally, information on the federal awards can be found on pages 51-61 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as useful indicator of a government's financial position. In the case of the County, assets and deferred outflows of resources of the primary government exceeded liabilities by \$6,462,315 at the close of the 2012 fiscal year, as compared to \$6,460,289 at the close of the 2011 fiscal year.

Table 1 – Condensed Statements of Net Position

	December 31,	
	2012	2011
Current assets	\$ 5,714,794	\$ 5,749,980
Capital assets	<u>6,873,956</u>	<u>7,255,008</u>
Total assets	<u>12,588,750</u>	<u>13,004,988</u>
Deferred outflows of resources	<u>155,354</u>	<u>178,952</u>
Current liabilities	245,693	249,277
Noncurrent liabilities	<u>6,036,096</u>	<u>6,474,374</u>
Total liabilities	<u>6,281,789</u>	<u>6,723,651</u>
Net investment in capital assets	2,329,310	2,243,960
Restricted	2,130,151	2,118,175
Unrestricted	<u>2,002,854</u>	<u>2,098,154</u>
Total net position	<u>\$ 6,462,315</u>	<u>\$ 6,460,289</u>

At December 31, 2012, total assets of the County are \$12,588,750. The largest portion of total assets is its capital assets being depreciated (net of accumulated depreciation) of \$6,873,956.

The County's deferred outflows of resources totaled \$155,354 at December 31, 2012. This balance represents a deferred charge on refunding, which is amortized over the life of the related debt.

The County's liabilities totaled \$6,281,789 at December 31, 2012. The largest portion of the liabilities is outstanding bonded debt of \$4,700,000.

The County had favorable current ratios of 23.26 at December 31, 2012, and 23.07 at December 31, 2011; such a ratio implies that the County has sufficient assets on hand to cover its liabilities outstanding at December 31, 2012 that will come due in the ensuing year. Table 2, below, presents the current ratio for the County at December 31, 2012 and December 31, 2011:

Table 2 – Current Assets and Current Liabilities

	December 31,	
	2012	2011
Current assets	\$ 5,714,794	\$ 5,749,980
Current liabilities	245,693	249,277
Ratio of current assets to current liabilities	23.26	23.07

The largest portion of the County's primary government net position (36.0 percent) is the County's investment in capital assets (such as land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The next largest portion of the County's primary government net position (33.0 percent) represents resources that are subject to external restrictions on how they may be used. The remainder of the County's primary government net position (31.0 percent) represents the County's unrestricted net position which may be used to meet the County's ongoing obligations to citizens and creditors.

Total net position increased \$2,026 from the prior year. The moderate increase in net position is attributed to an increase in charges for services and tax revenues and a decrease in program expenses in comparison with prior year.

Table 3, as presented below, shows the changes in net position for the years ending December 31, 2012 and December 31, 2011:

Table 3 – Condensed Statement of Revenues, Expenses and Changes in Net Position

	Year Ended December 31,	
	2012	2011
Program revenues:		
Charges for services	\$ 2,611,408	\$ 2,483,351
Operating grants and contributions	755,227	965,156
General revenues	<u>12,318,795</u>	<u>12,132,530</u>
Total revenues	<u>15,685,430</u>	<u>15,581,037</u>
Program expenses	<u>15,683,404</u>	<u>15,912,738</u>
Change in net position	2,026	(331,701)
Net position—beginning	<u>6,460,289</u>	<u>6,791,990</u>
Net position—ending	<u>\$ 6,462,315</u>	<u>\$ 6,460,289</u>

Overall revenues increased in comparison to prior year by 0.7 percent due primarily to an increase in taxes and charges for services revenues. Additionally, the County experienced a decrease in operating grants and contributions.

Total program expenses decreased from prior year by 1.4 percent. The County experienced a large decrease in human services related to decreasing grant activity. Additionally, there was a decrease in public safety attributed to decreasing costs for benefits and overtime pay. These large decreases were offset with significant increases in general government and public works.

A summary of sources of revenues for the years ended December 31, 2012 and December 31, 2011 is presented in Table 4 below:

Table 4 – Summary of Sources of Revenues

	Year Ended December 31,		Increase/(decrease)	
	2012	2011	Dollars	Percent
Charges for services	\$ 2,611,408	\$ 2,483,351	\$ 128,057	5.2
Operating grants and contributions	755,227	965,156	(209,929)	(21.8)
Taxes	9,295,312	9,082,195	213,117	2.3
Intergovernmental	2,707,328	2,815,991	(108,663)	(3.9)
Interest/investment income	27,781	52,041	(24,260)	(46.6)
Miscellaneous	288,374	182,303	106,071	58.2
Total revenues	<u>\$ 15,685,430</u>	<u>\$ 15,581,037</u>	<u>\$ 104,393</u>	0.7

The significant revenue sources for the County are taxes, which account for \$9,295,312 or 59.3 percent of total revenues, intergovernmental revenues of \$2,707,328 or 17.3 of total revenues, and charges for services of \$2,611,408 or 16.6 percent of total revenues. Similarly, for the year ended December 31, 2011, tax revenues were \$9,082,195 or 58.3 percent of total revenues, intergovernmental revenues were \$2,815,991 or 18.1 percent, and charges for services of \$2,483,351 or 15.9 percent of total revenues.

A summary of program expenses for the years ended December 31, 2012 and December 31, 2011 is presented below in Table 5:

Table 5 – Summary of Program Expenses

	Year Ended December 31,		Increase/(decrease)	
	2012	2011	Dollars	Percent
General government	\$ 5,860,707	\$ 5,649,388	\$ 211,319	3.7
Public safety	5,583,553	5,733,145	(149,592)	(2.6)
Public works	425,192	268,447	156,745	58.4
Human services	2,583,303	2,869,856	(286,553)	(10.0)
Culture and recreation	392,465	434,704	(42,239)	(9.7)
Conservation and development	250,462	358,486	(108,024)	(30.1)
Miscellaneous	435,710	350,068	85,642	24.5
Interest and other fiscal charges	152,012	248,644	(96,632)	(38.9)
Total program expenses	<u>\$ 15,683,404</u>	<u>\$ 15,912,738</u>	<u>\$ (229,334)</u>	(1.4)

The County's significant expense items for the year ended December 31, 2012 were general government of \$5,860,707 or 37.4 percent of total expenses, public safety of \$5,583,553 or 35.6 percent of total expenses, and human services of \$2,583,303, or 16.5 percent of total expenses. Similarly, for the year ended December 31, 2011 significant expense items were public safety of \$5,733,145, or 36.0 percent of total expenses, general government support of \$5,649,388 or 35.5 percent of total expenses, and human services of \$2,869,856, or 18.0 percent of total expenses.

Financial Analysis of the County's Funds

Governmental funds. The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, *unassigned* and *assigned fund balances* may serve as a useful measure of a government's net resources available for spending at the end of a fiscal year.

As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$5,511,587, a decrease of \$6,748 in comparison with the prior year. *Unassigned fund balance* is \$1,754,836 or approximately 11.2 percent of total governmental expenditures. Additionally, the County's *assigned fund balances* total \$1,509,333. Together, *unassigned* and *assigned fund balance* represents \$3,264,169 or 20.8 percent of total governmental expenditures. *Nonspendable* amounts represent net current financial resources that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. *Nonspendable fund balance* consists of \$117,267 for prepaid items. *Restricted* amounts are constrained to specific purposes by their providers through constitutional provisions or by enabling legislation. *Restricted fund balance* consists of \$1,631,218 for debt service and \$498,933 for the County's E-911 Program.

The General Fund is the chief operating fund of the County. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$1,754,836, while total fund balance was \$2,563,247. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total expenditures. Unassigned fund balance represents 13.3 percent of General Fund expenditures, while total fund balance represents 19.5 percent of that same amount.

The County's General Fund has a net increase in fund balance of \$9,996 in the current fiscal year. The net increase was due to the County's ability to control spending while experiencing taxes and charges for services revenues above budgeted amounts during the year end December 31, 2012.

The Debt Service Fund has a total fund balance of \$1,673,686, of which \$42,468 represents prepaid debt service interest payments and \$1,631,218 is restricted to be used for the future payment of debt service.

General Fund Budgetary Highlights

Final budget compared to actual results. A review of actual revenues and expenditures compared to the estimated revenues and appropriations in the final budget yields the following significant variances: favorable variances within charges for services and miscellaneous revenues of \$207,194 and \$235,589, respectively; unfavorable variances within culture and recreation, conservation and development and transfers out of \$117,844, \$90,931, and \$107,012, respectively.

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
Revenues and other financing sources	\$ 12,935,032	\$ 12,935,032	\$ 13,335,925	\$ 400,893
Expenditures and other financing uses	13,311,736	13,311,736	13,325,929	(14,193)
Excess (deficiency) of revenues over expenditures and other financing uses	\$ (376,704)	\$ (376,704)	\$ 9,996	\$ 386,700

Capital Assets and Debt Administration

Capital assets. The County's investment in capital assets for its governmental activities as of December 31, 2012, amounted to \$6,873,956 (net of accumulated depreciation). This investment in capital assets includes land and land improvements, buildings and improvements, the E-911 communication system and machinery and equipment. All depreciable capital assets were depreciated from acquisition date to the end of the current year as outlined in the County's capital asset policy.

Capital assets net of depreciation for the governmental activities at the years ended December 31, 2012 and 2011 are presented below:

Table 6 – Summary of Capital Assets (Net of Depreciation)

	Governmental Activities	
	2012	2011
Land	\$ 272,234	\$ 272,234
Buildings and improvements	4,903,894	5,118,486
E-911 communication system	1,441,351	1,483,620
Land improvements	30,923	43,080
Machinery and equipment	225,554	337,588
Total	<u>\$6,873,956</u>	<u>\$7,255,008</u>

Additional information on the County's capital assets can be found in Note 6 of this report.

Debt. At December 31, 2012, the County had total bonded debt outstanding of \$4,700,000, as compared to \$5,190,000 in the prior year. Additional information on the County's long-term debt can be found in Note 12 of this report.

Financial Position

The unemployment rate for the County was 6.7 percent, which is decreased from the prior year and is favorable when compared with the national average rate of 7.8.

Contacting the County's Fiscal Department

This financial report is designed to provide our citizens, taxpayers, creditors and investors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Commissioners of Warren County, 204 Fourth Avenue, Warren, Pennsylvania 16365.

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BASIC FINANCIAL STATEMENTS

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COUNTY OF WARREN, PENNSYLVANIA
Statement of Net Position
December 31, 2012

	<u>Primary Government</u>	<u>Component Units</u>	
	<u>Governmental Activities</u>	<u>Rouse Estate</u>	<u>Warren Library Association</u>
ASSETS:			
Cash and cash equivalents	\$ 4,319,237	\$ 2,349,768	\$ 456,503
Restricted cash and cash equivalents	450,717	231,079	-
Investments	-	1,734,799	3,576,764
Accounts receivable	827,573	1,924,875	-
Estimated third party payor settlements	-	257,940	-
Prepaid items	117,267	135,194	-
Other assets	-	116,487	-
Capital assets not being depreciated	272,234	309,350	-
Capital assets being depreciated (net of accumulated depreciation)	<u>6,601,722</u>	<u>5,628,915</u>	<u>-</u>
Total assets	<u>12,588,750</u>	<u>12,688,407</u>	<u>4,033,267</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred charge on refunding	<u>155,354</u>	<u>-</u>	<u>-</u>
Total deferred outflows of resources	<u>155,354</u>	<u>-</u>	<u>-</u>
LIABILITIES:			
Accounts payable	181,033	442,735	-
Accrued liabilities	22,174	6,481,921	-
Interest payable	42,486	-	-
Unearned revenue	-	146,571	-
Non-current liabilities:			
Due within one year	470,000	548,134	-
Due within more than one year	<u>5,566,096</u>	<u>3,633,168</u>	<u>-</u>
Total liabilities	<u>6,281,789</u>	<u>11,252,529</u>	<u>-</u>
NET POSITION:			
Net investment in capital assets	2,329,310	-	-
Restricted	2,130,151	1,207,524	2,488,522
Unrestricted	<u>2,002,854</u>	<u>228,354</u>	<u>1,544,745</u>
Total net position	<u>\$ 6,462,315</u>	<u>\$ 1,435,878</u>	<u>\$ 4,033,267</u>

The notes to the financial statements are an integral part of this statement.

COUNTY OF WARREN, PENNSYLVANIA
Statement of Activities
Year Ended December 31, 2012

Function/Program	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Primary Government	Component Units	
				Governmental Activities	Rouse Estate	Warren Library Association
Primary government:						
General government	\$ 5,860,707	\$ 1,714,172	\$ -	\$ (4,146,535)	\$ -	\$ -
Public safety	5,583,553	755,807	371,331	(4,456,415)	-	-
Public works	425,192	-	197,952	(227,240)	-	-
Human services	2,583,303	-	-	(2,583,303)	-	-
Culture and recreation	392,465	139,967	-	(252,498)	-	-
Conservation and development	250,462	-	185,192	(65,270)	-	-
Miscellaneous	435,710	1,462	-	(434,248)	-	-
Interest and other fiscal charges	152,012	-	752	(151,260)	-	-
Total primary government	\$ 15,683,404	\$ 2,611,408	\$ 755,227	(12,316,769)	-	-
Component units:						
Rouse Estate	\$ 16,045,246	\$ 15,483,675	\$ 383,929		(177,642)	-
Warren Library Association	1,283,331	51,613	1,087,486		-	(144,232)
Total component units	\$ 17,328,577	\$ 15,535,288	\$ 1,471,415		(177,642)	(144,232)
General revenues:						
Taxes				9,295,312	-	-
Intergovernmental				2,707,328	-	-
Interest/investment income				27,781	169,291	88,970
Miscellaneous				288,374	403,757	-
Total general revenues				12,318,795	573,048	88,970
Nonoperating gains on investments				-	-	341,909
Change in net position				2,026	395,406	286,647
Net position—beginning				6,460,289	1,040,472	3,746,620
Net position—ending				\$ 6,462,315	\$ 1,435,878	\$ 4,033,267

The notes to the financial statements are an integral part of this statement.

COUNTY OF WARREN, PENNSYLVANIA
Balance Sheet
Governmental Funds
December 31, 2012

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 2,055,392	\$ 1,533,768	\$ 730,077	\$ 4,319,237
Restricted cash	-	-	450,717	450,717
Accounts receivable	722,536	-	105,037	827,573
Due from other funds	-	97,450	-	97,450
Prepaid items	74,799	42,468	-	117,267
Total assets	<u>\$ 2,852,727</u>	<u>\$ 1,673,686</u>	<u>\$ 1,285,831</u>	<u>\$ 5,812,244</u>
LIABILITIES				
Accounts payable	\$ 172,016	\$ -	\$ 9,017	\$ 181,033
Accrued liabilities	22,174	-	-	22,174
Due to other funds	95,290	-	2,160	97,450
Total liabilities	<u>289,480</u>	<u>-</u>	<u>11,177</u>	<u>300,657</u>
FUND BALANCES				
Nonspendable	74,799	42,468	-	117,267
Restricted	-	1,631,218	498,933	2,130,151
Assigned	733,612	-	775,721	1,509,333
Unassigned	1,754,836	-	-	1,754,836
Total fund balances	<u>2,563,247</u>	<u>1,673,686</u>	<u>1,274,654</u>	<u>5,511,587</u>
Total liabilities and fund balances	<u>\$ 2,852,727</u>	<u>\$ 1,673,686</u>	<u>\$ 1,285,831</u>	<u>\$ 5,812,244</u>

The notes to the financial statements are an integral part of this statement.

COUNTY OF WARREN, PENNSYLVANIA
Reconciliation of the Balance Sheet—Governmental Funds
to the Statement of Net Position
December 31, 2012

Amounts reported for governmental activities in the statement of net position (page 11) are different because:

Fund balances—total governmental funds (page 13)		\$ 5,511,587
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$16,256,167 and the accumulated depreciation is \$9,382,211.		6,873,956
Certain deferred outflows of resources represent a consumption of net position in a future period and, therefore, are not reported in the funds:		
Deferred charge on refunding		155,354
To recognize interest accrual on long term debt. Accrued interest for general obligation bonds is \$42,486 at year end.		(42,486)
Long-term liabilities, including bonds payable, other post-employment benefits ("OPEB"), and judgments and claims, are not due and payable in the current period and, therefore, are not reported in the funds. The effect of these items are:		
Bonds payable	\$ 4,700,000	
OPEB obligation	1,171,899	
Judgments and claims	<u>164,197</u>	<u>(6,036,096)</u>
Net position of governmental activities		<u>\$ 6,462,315</u>

The notes to the financial statements are an integral part of this statement.

COUNTY OF WARREN, PENNSYLVANIA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended December 31, 2012

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes	\$ 8,704,558	\$ 730,721	\$ -	\$ 9,435,279
Licenses and permits	19,776	-	-	19,776
Intergovernmental	2,707,328	-	1,008,391	3,715,719
Charges for services	1,529,794	-	592,302	2,122,096
Fines and forfeitures	74,141	-	-	74,141
Interest/investment income	16,893	6,853	4,035	27,781
Miscellaneous	280,489	-	11,927	292,416
Total revenues	<u>13,332,979</u>	<u>737,574</u>	<u>1,616,655</u>	<u>15,687,208</u>
EXPENDITURES				
Current:				
General government	5,211,667	500	450,320	5,662,487
Public safety	4,498,160	-	1,050,059	5,548,219
Public works	-	-	388,004	388,004
Human services	2,475,953	-	-	2,475,953
Culture and recreation	368,668	-	-	368,668
Conservation and development	168,527	-	52,828	221,355
Miscellaneous	407,661	-	28,049	435,710
Debt service:				
Principal	-	490,000	-	490,000
Interest	45,006	58,554	-	103,560
Total expenditures	<u>13,175,642</u>	<u>549,054</u>	<u>1,969,260</u>	<u>15,693,956</u>
Excess (deficiency) of revenues over expenditures	<u>157,337</u>	<u>188,520</u>	<u>(352,605)</u>	<u>(6,748)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	2,946	-	150,287	153,233
Transfers out	(150,287)	-	(2,946)	(153,233)
Total other financing sources (uses)	<u>(147,341)</u>	<u>-</u>	<u>147,341</u>	<u>-</u>
Net change in fund balances	9,996	188,520	(205,264)	(6,748)
Fund balances—beginning	<u>2,553,251</u>	<u>1,485,166</u>	<u>1,479,918</u>	<u>5,518,335</u>
Fund balances—ending	<u>\$ 2,563,247</u>	<u>\$ 1,673,686</u>	<u>\$ 1,274,654</u>	<u>\$ 5,511,587</u>

The notes to the financial statements are an integral part of this statement.

COUNTY OF WARREN, PENNSYLVANIA
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances—Governmental Funds to the Statement of Activities
Year Ended December 31, 2012

Amounts reported for governmental activities in the statement of activities (page 12) are different because:

Net change in fund balances—total governmental funds (page 15) \$ (6,748)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital asset additions	\$ 347,431	
Depreciation expense	<u>(726,705)</u>	(379,274)

Loss on disposition of assets is recorded in the statement of activities, but not in the statement for governmental funds. (1,778)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:

Principal payments on serial bonds	\$ 490,000	
Change in accrued interest	<u>(24,854)</u>	465,146

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. (23,598)

In the statement of activities, certain operating expenses such as other post-employment benefits ("OPEB") and judgments and claims are measured by amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). The net effect of these differences is as follows:

OPEB	\$ (152,670)	
Judgments and claims	<u>100,948</u>	<u>(51,722)</u>

Change in net position of governmental activities \$ 2,026

The notes to the financial statements are an integral part of this statement.

COUNTY OF WARREN, PENNSYLVANIA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual—General Fund
Year Ended December 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Adopted</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 8,586,800	\$ 8,586,800	\$ 8,704,558	\$ 117,758
Licenses and permits	18,000	18,000	19,776	1,776
Intergovernmental	2,873,632	2,873,632	2,707,328	(166,304)
Charges for services	1,322,600	1,322,600	1,529,794	207,194
Fines and forfeitures	54,300	54,300	74,141	19,841
Interest/investment income	34,800	34,800	16,893	(17,907)
Miscellaneous	44,900	44,900	280,489	235,589
Total revenues	<u>12,935,032</u>	<u>12,935,032</u>	<u>13,332,979</u>	<u>397,947</u>
EXPENDITURES				
Current:				
General government	5,093,386	5,093,386	5,211,667	(118,281)
Public safety	4,472,955	4,472,955	4,498,160	(25,205)
Human services	2,853,846	2,853,846	2,475,953	377,893
Culture and recreation	250,824	250,824	368,668	(117,844)
Conservation and development	77,596	77,596	168,527	(90,931)
Miscellaneous	471,154	471,154	407,661	63,493
Debt service:				
Interest	48,700	48,700	45,006	3,694
Total expenditures	<u>13,268,461</u>	<u>13,268,461</u>	<u>13,175,642</u>	<u>92,819</u>
Excess (deficiency) of revenues over expenditures	<u>(333,429)</u>	<u>(333,429)</u>	<u>157,337</u>	<u>490,766</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	2,946	2,946
Transfers out	(43,275)	(43,275)	(150,287)	(107,012)
Total other financing sources (uses)	<u>(43,275)</u>	<u>(43,275)</u>	<u>(147,341)</u>	<u>(104,066)</u>
Net change in fund balances	(376,704)	(376,704)	9,996	386,700
Fund balances—beginning	<u>2,553,251</u>	<u>2,553,251</u>	<u>2,553,251</u>	<u>-</u>
Fund balances—ending	<u>\$ 2,176,547</u>	<u>\$ 2,176,547</u>	<u>\$ 2,563,247</u>	<u>\$ 386,700</u>

The notes to the financial statements are an integral part of this statement.

COUNTY OF WARREN, PENNSYLVANIA
Statement of Net Position
Fiduciary Funds
December 31, 2012

	<u>Pension Trust Fund</u>	<u>Private Purpose Fund</u>	<u>Agency Fund</u>
ASSETS			
Restricted cash and cash equivalents	\$ 770,214	\$ 2,201,632	\$ 914,798
Investments	25,562,634	-	-
Accounts receivable	115,748	4,668	-
Total assets	<u>26,448,596</u>	<u>2,206,300</u>	<u>914,798</u>
LIABILITIES			
Temporary withholding liabilities	-	-	914,798
Total liabilities	<u>-</u>	<u>-</u>	<u>914,798</u>
NET POSITION			
Held in trust for pension benefits and other purposes	<u>26,448,596</u>	<u>2,206,300</u>	<u>-</u>
Total net position	<u>\$ 26,448,596</u>	<u>\$ 2,206,300</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of this statement.

COUNTY OF WARREN, PENNSYLVANIA
Statement of Changes in Net Position
Fiduciary Funds
Year Ended December 31, 2012

	<u>Pension Trust Fund</u>	<u>Private Purpose Fund</u>
Contributions:		
Employee contributions	\$ 621,752	\$ -
County contributions	404,093	-
Other contributions	-	19,625
Total contributions	<u>1,025,845</u>	<u>19,625</u>
Investment income:		
Net gain in fair value	1,732,697	198,125
Interest	192,870	57,442
Dividends	375,779	-
Miscellaneous	311,704	-
Less: investment expense	<u>(122,363)</u>	<u>-</u>
Net income from investing activities	<u>2,490,687</u>	<u>255,567</u>
Deductions:		
Benefits and refunds paid to plan members and beneficiaries	(1,360,483)	(92,122)
Administrative expense	<u>(17,350)</u>	<u>(16,075)</u>
Total deductions	<u>(1,377,833)</u>	<u>(108,805)</u>
Net change in fiduciary net position	2,138,699	166,387
Net position—beginning	<u>24,309,897</u>	<u>2,039,913</u>
Net position—ending	<u>\$ 26,448,596</u>	<u>\$ 2,206,300</u>

The notes to the financial statements are an integral part of this statement.

COUNTY OF WARREN, PENNSYLVANIA
Notes to the Financial Statements
Year Ended December 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the County of Warren, Pennsylvania (the "County") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"), as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The financial statements of the Rouse Estate have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles and the financial statements of Warren Library Association have been prepared on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The more significant of the County's accounting policies are described below.

Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government of the County of Warren, Pennsylvania (the "County") and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities* are supported by taxes, intergovernmental revenues, and other nonexchange transactions. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. The County reports no business-type activities.

Financial Reporting Entity

The County is a unit of local government created by the Commonwealth of Pennsylvania. The County operates under provisions of the laws of the Commonwealth of Pennsylvania and with authority vested by those statutes provides services and facilities in the areas of public safety, highways, sanitation, parks, recreation and general administration.

Independently elected officials of the County include:

County Commissioners (3)	Sheriff
Register and Recorder	Coroner
District Justices (4)	District Attorney
Prothonotary and Clerk of Courts	Jury Commissioners (2)
County Treasurer	Tax Collectors (27)
Internal Auditors (3)	

The financial reporting entity includes organizations, functions, and activities over which elected officials exercise oversight responsibility. Oversight responsibility is determined on the basis of financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

All governmental activities and functions performed for the County are its direct responsibility. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

Discretely Presented Component Units—The component unit columns in the basic financial statements include the financial data of the County's two discretely presented component units. These units are reported in a separate column to emphasize that they are legally separate from the County.

Rouse Estate—The Rouse Estate (the "Estate") is a Pennsylvania not-for-profit corporation located in Youngsville, Pennsylvania. The Estate's operations include those of a 176-bed nursing facility ("Rouse-Warren County Home"), a 60-bed assisted living facility ("The Suites at Rouse") providing residential and support services for the aged, child care center ("Rouse Children's Center") providing day care services for children and the Rouse Operating Account which includes an office building ("Rouse Agricultural Center") renting office space to businesses located in Warren County. In addition to including the Rouse Agricultural Center, the Rouse Operating Account includes activities of the Rouse Estate not included in the three other entities. The governing body of the Estate is a five voting-member Board of Directors. The Warren County Commissioners comprise the majority three of the five voting-members.

The nursing facility provides skilled and intermediate care services to residents under the Medicaid and Medicare programs.

The Estate is exempt from income taxes under Internal Revenue Code Section 501 (c)(3).

Resident Care Revenue, Net of Contractual Allowances—Reimbursement for Medicaid beneficiaries is based on the Pennsylvania Department of Public Welfare's Case-Mix reimbursement system. Under the Case-Mix reimbursement system, providers are paid prospectively by the Pennsylvania Medicaid program. The Case-Mix reimbursement system eliminates the need for retroactive adjustments.

The Estate's nursing facility division participates in Medicare's prospective payments system ("PPS"). Under PPS, providers are paid prospectively by the intermediary acting on behalf of, and at the direction of the Centers for Medicaid and Medicare Services. The PPS does not provide for retroactive adjustments.

The large majority of the Estate's revenues under third-party payor agreements are based on capitated contracts whereby the Estate receives payment based on pre-established rates and fee schedules (including Medicare and Medicaid). The payment under these contracts does not provide for retroactive cost settlements. However, from time to time, based on various regulatory issues, the Estate may receive lump sum payments from Medicare and Medicaid. These payments are recognized as revenue when the amount is known and payment is certain.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Estate believes it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations.

County Allocation—Pursuant to a lease agreement dated July, 1980, by and between the County and the Commissioners of the Rouse Estate, the County makes annual allocations to the Estate necessary to satisfy statutory obligations to provide care for any dependent having residence in the County. The County contribution totaled \$1 for the year ended December 31, 2012.

Basis of Accounting—The financial statements of the Rouse Estate have been prepared on the accrual basis of accounting.

The Rouse Estate's financial statements can be obtained either through inquiry of the County or the Rouse Estate. The County's address is Commissioners of Warren County, 204 Fourth Avenue, Warren PA, 16365, and the Rouse Estate address is, Commissioners of the Rouse Estate, 701 Rouse Avenue, Youngsville, PA, 16371.

Warren Library Association—The Warren Library Association (the "Association") is a nonprofit corporation chartered in 1874 under the laws of Pennsylvania. Support for operations comes in large part from the County and State support. The governing body of the Association is a twelve member Board of Control, seven of its members elected from and by the Association. The Warren County Commissioners appoint four members and the City of Warren appoints one member.

The Association is exempt from income taxes under Code Section 501(c)(3) of the Internal Revenue Code.

Significant Funding Sources—The Association depends on funding from County government and from State library funds for the majority of its operating budget.

Basis of Accounting—The Association reports financial information on the modified cash basis. Under this basis of accounting, income is recognized generally when received rather than when earned, and expenses are recognized when paid rather than when incurred. Certain cash transactions, by their nature, may result in the recognition of assets and liabilities rather than revenues and expenses.

The Warren Library Association's financial statements can be obtained either through inquiry of the County or the Warren Library Association. The Warren Library Association's address is, Warren Library Association, 205 Market Street, Warren PA, 16365.

Activities Not Deemed Properly Reportable as Part of the County—Although the following are related to the County, they are not included in the County reporting entity for the reasons noted:

Warren County Human Services Department—The Warren County Human Services Department (the "Department") is a joinder between the Counties of Forest and Warren. The Department has adopted the provisions of Section 2100 of the Codification of Governmental Accounting and Financial Reporting Standards, for the criteria used to evaluate organizations,

activities and functions that should be included in the Warren County Human Services financial statements and supplementary information.

The Department has not identified any entities which should be subject to evaluation for inclusion for the Department reporting entity.

Because the Department was created for the delivery of services to the residents of the Counties of Forest and Warren, the Department has been evaluated under the aforementioned criterion for inclusion in the reporting entities of each County. This evaluation has concluded that the Department is excluded from the reporting entity of each County. Neither County exercises significant control over the Department and it is independent of the counties regarding fiscal accountability, scope of public service, and financial assisted program relationships.

Warren County Industrial Development Authority, Warren County Housing Authority, Warren County Hospital Authority, Warren County Transit Authority, Bradford Regional Airport Authority—These potential component units have separate elected boards and provide services to residents, generally within the geographic boundaries of the County. These potential units are excluded from the reporting entity because the County does not have the ability to exercise influence over their daily operations, approve budgets or provide funding.

Solid Waste Authority—The Solid Waste Authority's governing board selects management staff, sets user charges, establishes budgets and controls all aspects of solid waste management. The County provides no funding to the Authority.

Basis of Presentation – Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges. Elimination of these items would distort the direct costs and program revenues reported for the various functions concerned.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the County's funds. Separate statements for each fund category—governmental and fiduciary—are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The County reports the following major governmental funds:

- ◆ *General Fund*—is the principal operating fund of the County and includes all operations not required to be recorded in other funds.
- ◆ *Debt Service Fund*—is used to account for resources accumulated to be used towards future payments of principal and interest on long-term debt obligations.

The County also reports the following nonmajor governmental funds within other governmental funds:

Special Revenue Funds—Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. These funds include:

Other governmental funds:

- ◆ *Liquid Fuels*—is used to account for State aid revenues used primarily for building, improving and maintaining County and local roads and bridges.
- ◆ *D.U.I. Program*—is used to account for State/local aid revenues, fine and service charges primarily used for programs designed to rehabilitate the drunk driver.
- ◆ *Prothonotary Automation Fees*—is used to account for revenues collected from filing fees for cases filed with the Prothonotary office.
- ◆ *Records Improvement*—was established to maintain the \$2/per deed charge and other monies are restricted to be used for record improvements.
- ◆ *Small Communities*—is used to account for activity related to the Federal Housing and Urban Development (“HUD”) Community Development Program.
- ◆ *Hazardous Materials*—was established to maintain revenues and expenditures of the Emergency Management Agency.
- ◆ *Warren E-911*—was established to account for fees allocated from phone services to be used to improve public safety.
- ◆ *Winterfest*—was established to account for funds to be used at the Warren County Winterfest.
- ◆ *Domestic Relations*—is used to account for Federal aid revenues used to operate the domestic relations office.
- ◆ *Orphan Court*—was established to account for funds designated for counseling service provided to parents of adopted children.

Special purpose funds:

- ◆ *Housing Trust*—was established to maintain fees collected with the Recorder of Deeds and used for sewer taps, anthems, and other various projects to lower income households.
- ◆ *Juvenile Probation*—maintains funds generated from juvenile probation costs and used to provide services for the juveniles.
- ◆ *Northwest Home Rehab*—maintains grant money drawn down from the Commonwealth and allocated to various improvements.

Additionally, the County reports the following fund type:

Fiduciary Funds—are used to account for assets held by the County in a trustee capacity or as an agent for individuals, private organizations and/or other governmental units. These funds include:

- ◆ *Pension Trust Fund*—is an employee retirement fund which accounts for the accumulation of resources to be used for retirement annuity payments at appropriate amounts and times in the future. The County and the Warren County Human Services account for the administrative costs of the system. Resources are contributed by employees at rates fixed by law and by the County at amounts determined by an annual actuarial study.
- ◆ *Private Purpose Fund*—is used to account for resources legally held in trust for use by the County devoted for specific purposes.
- ◆ *Agency Fund*—maintains funds that the County holds as an agent for individuals, private organizations, other governments, and/or other funds.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year-end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in the fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In the fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in the fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General

capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, licenses and interest associated with the current fiscal period are all considered susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measureable and available only when cash is received by the County.

Budgetary Information

The County adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

- At least thirty days prior to adopting the budget, the Board of Commissioners begin the preparation of the proposed operating budgets for the fiscal year commencing the following January 1. The operating budget includes proposed expenses and the means of financing them.
- The proposed budget is available for public inspection for a period of twenty days prior to adoption.
- Prior to December 31, the budget is legally enacted through passage of an ordinance.
- No such proposed amended budget shall be revised upward in excess of ten per centum in the aggregate thereof or as to an individual item in excess of twenty-five per centum of the amount of such individual item in the proposed amended budget. Any amended budget must be adopted by the County Commissioners on or before the fifteenth day of February. No supplemental appropriations were made for the year ended December 31, 2012.
- Formal budgetary integration is employed as a management control device during the year for the General Fund and is presented in the Statement of Revenues, Expenditures, and Changes in Fund Balance—Budget and Actual.
- Capital project budgets are adopted on a project basis. These budgets do not lapse at year end.
- The County does not account for encumbrances.

For the year ended December 31, 2012, certain line item expenditures exceeded appropriations within the General Fund:

- General government expenditures were over budget by \$118,281 largely due to professional service costs related to the courts and certain capital additions costs that were not anticipated during the formal budget process.
- Public safety expenditures were over budget by \$25,205 due to grant expenditures that were not budgeted for.
- Culture and recreation expenditures were over budget by \$117,844 due to tourism expenditures related to hotel taxes, which are not included in the County's budget.
- Conservation and development expenditures were over budget by \$90,931 due to community development grant expenditures that were not budgeted for.
- Transfers out were over budget by its balance of \$107,012 as transfers are not part of the formal budget process.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Cash, Cash Equivalents and Investments—The County’s cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition. Cash and cash equivalents in escrow consist of monies deposited in local financial institutions which are held by the County in escrow. Cash and cash equivalents include the following:

- Undistributed County commissions, fees, fines and costs held by row offices;
- Undistributed bail collections;
- Undistributed proceeds from sheriff sales;
- Funds held for inmates at the County prison;
- Funds held by the order of the court;
- Amounts due to the Commonwealth for the collection of inheritance, realty transfer, writ and marriage license taxes;
- Collection of delinquent taxes and tax distribution to municipalities and school districts.

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

Restricted Cash—Restricted cash represents cash held by the Warren E-911 fund for improvements in public safety.

Capital Assets—Capital assets, which include land, construction in progress, buildings and improvements, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the County as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The reported value excludes normal maintenance and repairs, which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. Donated capital assets are recorded at estimated fair market value of the item at the date of its donation. Major outlays for capital assets and improvements are capitalized as projects are completed.

Land and construction in progress are not depreciated. The other property, plant, equipment, and infrastructure of the primary government are depreciated using the straight line method over the following estimated useful lives:

Class of Asset	Useful Life
Buildings	20-40
Land improvements	5-15
Machinery and equipment:	
Permanent fixtures	20
Furniture	15
Heavy equipment	15
Office equipment	5-10
Vehicles	8
Other	10-20

Unearned Revenue—Certain revenues have not met the revenue recognition criteria for government-wide or fund purposes.

Deferred Outflows/Inflows of Resources—In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The County has one item that qualifies for reporting in this category, a deferred charge on refunding bonds that is being amortized over the life of the refunded debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The County does not have any items that qualify for reporting in this category.

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

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

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

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the County's highest level of decision-making authority. The Board of Commissioners is the highest level of decision-making authority for the County that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the County for specific purposes, but do not meet the criteria to be classified as committed. The Board of Commissioners has by resolution authorized the finance director to assign fund balance. The Board may also assign fund balance, as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does

not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Revenues and Expenditures/Expenses

Program Revenues—Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as *general revenues* rather than as program revenues.

Retirement Benefits—An annuitant is defined as any County employee who has retired and wishes to receive monthly payments from his/her retirement fund.

For all regular full-time Warren County employees who are not members of a collective bargaining unit who retire with a normal (super annuation) retirement pension, who are neither terminated nor retire in lieu of termination, the County will continue to provide health insurance after retirement under the terms and conditions set forth in the collective bargaining agreement between the County and union covering members of the collective bargaining unit in the department or office from which the annuitant retired. Any term, condition, or limitation on health insurance after retirement set forth in a collective bargaining agreement covering employees in the department or office from which the annuitant retired shall be applicable to the annuitant, despite the fact that the annuitant was not a member of the collective bargaining unit during employment with the County.

The continuing health insurance benefits paid by the County as set forth in this policy shall be for the annuitant only. The spouse of the annuitant shall be covered under the terms of COBRA if the spouse was covered at the time the annuitant retired from County employment.

All County annuitants/retirees who become eligible for benefits under this policy are required to enroll in Medicare Part B (or any successor plan as amended by the US Department of Health and Human Services' Centers for Medicare and Medicaid Services) once Medicare eligible in order to continue to be covered under this amended policy. Failure to enroll in Medicare Part B (or any successor plan as amended by the US Department of Health and Human Services' Centers for Medicare and Medicaid Services) shall serve as a basis for the County to discontinue benefits as set forth in this policy.

For County employees represented by Service Employees International Union, the County will provide health insurance after retirement for not more than ten (10) consecutive calendar years for the employee but only so long as the employee meets eligibility criteria, is not otherwise covered either through the employee's spouse, or under any health insurance plan private or public, including Medicare. The continued health insurance shall be a benefit equivalent to Medicare, shall not include dental, and need not include prescription drugs, except to the extent coverage is needed to provide a Medicare equivalent plan. The County shall continue to provide to an employee who retires under the circumstances set forth a six thousand dollar (\$6,000) term life insurance paid for by the County.

For County employees represented by the American Federation of State, County and Municipal Employees, the County will provide to any full-time employee hired before January 1, 1999, who either retires after either after completion of 25 years of service to the County or retires upon or after reaching the age of 62 continue coverage under the hospitalization policy provided by the County, or its equivalent until Medicare is available. The County will provide to any full-time employee hired on or after January 1, 1999, or to any part-time employee who becomes full time on or after January

1, 1999, who either retires upon, or after, completion of 25 years of service to the County or after reaching the age of 62, continued coverage under the hospitalization plan provided by the County or until Medicare is available, whichever shall occur first. In the event of death of a regular, full-time employee, with at least one (1) year of service, as the direct result of, and incurred in the legal performance of his/her duty in comportation with departmental regulations, the County will continue to provide hospitalization (current coverage) insurance for the spouse and dependent children of said employee for a period of one (1) year from time of death of the employee.

Additional information regarding the County's retirement health benefits is provided at Note 9.

Other

Taxes—For calendar year 2012, real estate and debt service taxes were levied at 17.25 mills and 1.5 mills, respectively, upon each dollar of assessed valuation for general purposes.

Such taxes are due by November 30, after which a 10% penalty is imposed.

Estimates—The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of revenues, expenditures, assets, liabilities, deferred outflows/inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements during the reported period. Actual results could differ from those estimates.

Reclassification—Certain amounts from the 2012 Rouse Estate financial statements and the 2012 Warren Library Association financial statements have been reclassified to conform to the 2012 County presentation.

Adoption of New Accounting Pronouncements—During the year ended December 31, 2012, the County implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement amends the net assets reporting requirements in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The County also elected to early implement the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement Nos. 63 and 65 did not have a material impact on the County's financial position or results from operations.

Additionally, during the year ended December 31, 2012, the County completed the process of evaluating the impact that will result from adopting GASB Statements No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*; No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; and No. 64, *Derivative Employer Plans; Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*. GASB Statements No. 57, 60, 62 and 64 did not have a material impact on the County's financial position or results from operations.

Future Impacts of Accounting Pronouncements—The County has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 15 and No. 34*; and No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*, effective for the year ending December 31, 2013; No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*; No. 69, *Government Combinations and Disposals of Government Operations*; and No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, effective for the year ending December 31, 2014; and No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, effective for the year ending December 31, 2015. The County is therefore unable to disclose the impact that adopting GASB Statements No. 61, 66, 67, 68, 69 and 70 will have on its financial position and results of operations.

2. CASH AND CASH EQUIVALENTS

Collateral is required for time deposits and certificates of deposit in excess of the amount not covered by the federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and towns.

The detail of cash and cash equivalents at December 31, 2012 is as follows:

	Primary Government	Fiduciary Funds	Rouse Estate	Warren Library Association	Total
Cash and cash equivalents	\$ 4,319,237	\$ -	\$ 2,349,768	\$ 456,503	\$ 7,125,508
Restricted cash and cash equivalents	450,717	3,886,644	231,079	-	4,568,440
Total	<u>\$ 4,769,954</u>	<u>\$ 3,886,644</u>	<u>\$ 2,580,847</u>	<u>\$ 456,503</u>	<u>\$ 11,693,948</u>

Deposits—All deposits are carried at fair value, and are classified by custodial credit risk at December 31, 2012 as follows:

Credit Risk Category	Bank Balance	Book Balance	
		Primary Government	Fiduciary Funds
FDIC Insured	\$ 3,129,332	\$ 2,707,490	\$ 332,426
Uninsured:			
Collateral held by pledging financial institution's trust department or agent in the County's name	5,728,237	2,062,464	3,554,218
	<u>\$ 8,857,569</u>	<u>\$ 4,769,954</u>	<u>\$ 3,886,644</u>

Custodial Credit Risk-Deposits—Custodial credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned to it. As noted above, by State statute all deposits in excess of FDIC insurance coverage must be collateralized. At December 31, 2012, the County's deposits were either FDIC insured or collateralized with securities held by the pledging bank's agent in the County's name.

3. INVESTMENTS

The County investment policies are governed by Section 1706 of the County Code of the Commonwealth of Pennsylvania. The County Treasurer is authorized to use demand deposits, time deposits, and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. Government agencies and commercial paper. Other permissible investments as authorized for any pension or retirement fund include mutual funds, common and corporate stocks, corporate bonds and any investment authorized by Pennsylvania consolidated statutes Chapter 73 relating to fiduciary responsibilities.

Investments are reported at fair value. Accounting standards provide the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The fair value of investments at December 31, 2012 was as follows:

	Pension Trust Fund	Rouse Estate	Warren Library Association	Reporting Entity Total
Short-term investments	\$ -	\$ 27,655	\$ 80,337	\$ 107,992
Fixed income	8,280,252	-	-	8,280,252
Mutual funds	3,697,551	732,410	3,496,427	7,926,388
Common stocks	13,584,831	341,769	-	13,926,600
Corporate stocks	-	436,498	-	436,498
Corporate bonds	-	196,467	-	196,467
Total	<u>\$25,562,634</u>	<u>\$1,734,799</u>	<u>\$ 3,576,764</u>	<u>\$30,874,197</u>

The level of risk assumed by the County related to investments is that all investments are uninsured and unregistered investments for which the securities are held by an agent of the bank's trust department but not in the County's name. The County does not have in place, with the bank's trust department, a custodial agreement which required prior written approval from the County Treasurer

before funds can be moved. Investments are recorded at fair value. At December 31, 2012, the only investments reported by the County were within its Fiduciary Funds (Pension Trust Fund) and its component unit. These investments consisted entirely of Level 1 input reliability.

4. RECEIVABLES

Major revenues accrued by the County at December 31, 2012 consisted of the following:

A. Accounts Receivable—Represents amounts due from various sources for commissions, reimbursements and other services provided.

General Fund		\$ 722,536
Other governmental funds:		
Prothonotary Automation	\$ 823	
Records Improvement	1,668	
Warren E-911	52,779	
Domestic Relations	43,741	
Housing Trust	6,026	105,037
Total accounts receivable		<u>\$ 827,573</u>

5. OTHER ASSETS

Other assets of the Rouse Estate at December 31, 2012 are comprised of:

Unamortized bond issue costs and bond discount, net	\$ 67,755
Employee receivable	19,113
Supplies	<u>29,619</u>
Total	<u>\$ 116,487</u>

Bond Issuance Costs—Costs incurred in issuing the Series of 2002 bonds are being amortized over the term of the bonds using the straight-line method.

Loan Costs—Costs incurred as a result of obtaining financing for the renovations to the Suites at Rouse and the Rouse Agricultural Center. These costs consist mostly of closing costs. These costs are being amortized over the life of the loan.

6. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012 is presented as follows:

	Balance 1/1/2012	Additions	Deletions	Balance 12/31/2012
Capital assets, not being depreciated:				
Land	\$ 272,234	\$ -	\$ -	\$ 272,234
Total capital assets, not being depreciated	<u>272,234</u>	<u>-</u>	<u>-</u>	<u>272,234</u>
Capital assets, being depreciated:				
Buildings and improvements	9,274,338	17,709	-	9,292,047
E-911 communication system	1,690,754	-	-	1,690,754
Land improvements	182,348	-	-	182,348
Machinery and equipment	4,571,361	329,722	(82,299)	4,818,784
Total capital assets, being depreciated	<u>15,718,801</u>	<u>347,431</u>	<u>(82,299)</u>	<u>15,983,933</u>
Less accumulated depreciation for:				
Buildings and improvements	4,155,852	232,301	-	4,388,153
E-911 communication system	207,134	42,269	-	249,403
Land improvements	139,268	12,157	(80,521)	70,904
Machinery and equipment	4,233,773	439,978	-	4,673,751
Total accumulated depreciation	<u>8,736,027</u>	<u>726,705</u>	<u>(80,521)</u>	<u>9,382,211</u>
Total capital assets, being depreciated, net	<u>6,982,774</u>	<u>(379,274)</u>	<u>(1,778)</u>	<u>6,601,722</u>
Total capital assets, net	<u>\$ 7,255,008</u>	<u>\$ (379,274)</u>	<u>\$ (1,778)</u>	<u>\$ 6,873,956</u>

Depreciation expense was charged to the functions and programs of governmental activities as follows:

<u>Function/Program</u>	<u>Allocated Depreciation</u>
General government	\$ 337,529
Public safety	203,914
Public works	35,820
Human services	98,618
Culture and recreation	22,497
Conservation and development	28,327
	<u>\$ 726,705</u>

Rouse Estate—Component Unit—The Nursing home held property, facility, and equipment stated at cost for purchased items and at fair value for contributed items. Depreciation of property, facility, and equipment is computed using the straight-line method over the estimated useful lives. At December 31, 2012, the Nursing home reported net property, facility, and equipment totaling \$5,938,265.

7. ACCRUED LIABILITIES

Accrued liabilities reported by governmental funds at December 31, 2012, were as follows:

	General Fund	Total Governmental Funds
Salary and employee benefits	\$ 22,174	\$ 22,174
Total accrued liabilities	<u>\$ 22,174</u>	<u>\$ 22,174</u>

8. PENSION PLANS

The County maintains a single-employer defined benefit, contributory retirement plan for all full-time County employees. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. Cost-of-living adjustments are provided at the discretion of the Warren County Employees' Retirement Board. Act 96 of 1971, as amended cited as the County Pension Law provides for the creation, maintenance and operation of this plan. Plan members are required to contribute 7% of their annual covered salary. The County is required to contribute at an actuarially determined rate. Per Act 96 of 1971, as amended, contribution requirements of the plan members and the County are established and may be amended by the General Assembly of the Commonwealth of Pennsylvania. Administrative costs may be financed through investment earnings.

On an annual basis, an actuary determines the required employer contribution rates based on the age, sex, service, salary, and classification of each member.

The amount shown in the table below as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the Warren County Employees' Retirement System funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons with other public employee retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the Warren County Employees' Retirement System.

A summary of pension benefit obligation and plan net assets for the Warren County Employees' Retirement system as of December 31, 2012, the most recent valuation date, is presented as follows:

Pension benefit obligation:	
Accumulated plan benefits	\$ 5,790,420
Terminated vested benefits	830,505
Retired benefits	10,931,148
Member accumulated deductions	<u>9,469,242</u>
Total liabilities of the Warren County Employees' Retirement Fund	<u>\$27,021,315</u>
Net assets available for benefits, at cost (fair value \$26,448,596)	<u>\$27,021,315</u>

The pension benefit obligation was determined as part of an actuarial valuation at January 1, 2013. Significant actuarial assumptions used included (a) a rate of return on the investment of present and future assets of 7.50 percent per year compounded annually and (b) projected salary increases of 2.50 percent per year compounded annually.

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. For the five years ended 2012, 2011, 2010, 2009, and 2008, respectively, available assets were sufficient to fund 97.88%, 94.12%, 100.48%, 100.07% and 89.68% of the pension benefit obligation.

The certified annual County appropriation for 2012 for the Warren County Employee's Retirement System was determined to be \$404,093. Employee contributions amounted to \$621,752 for the year ended December 31, 2012. Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the standardized measure of the pension obligation.

December 31,	Liability for Credited Projected Benefits	Net Available Assets (Fair value)	Percentage Funded	Net Plan Assets (Cost)	Unfunded Liability
2003	\$ 13,663,831	\$ 19,545,983	143.05%	\$ 17,880,238	\$ -
2004	14,973,696	20,864,458	139.34%	18,590,747	-
2005	15,934,982	22,025,427	138.22%	19,544,320	-
2006	17,465,859	24,433,186	139.89%	21,021,583	-
2007	19,660,756	25,598,185	130.20%	22,567,657	-
2008	20,690,254	18,554,000	89.68%	21,871,807	2,136,254
2009	22,859,824	22,876,049	100.07%	22,395,683	-
2010	24,212,274	24,328,888	100.48%	24,212,274	-
2011	25,829,305	24,309,897	94.12%	25,829,305	1,519,408
2012	27,021,315	26,448,596	97.88%	27,021,315	572,719

Historical trend information showing the sufficient assets to pay benefits when due, with the exception of the plan years ended December 31, 2008, 2011 and 2012, is presented in the December 31, 2012 annual financial report of the system. Additional detailed information concerning the system may also be found in such report.

9. OTHER POST-EMPLOYMENT BENEFIT ("OPEB") OBLIGATIONS

Plan Description—The County provides medical, dental and prescription drug insurance benefits for retirees while contributing a portion of the expenses. Such post-employment benefits are an included value in the exchange of salaries and benefits for services rendered. An employee's total compensation package includes not only the salaries and benefits received during service, but all compensation and benefits received for their services during postemployment. The County provides an experience rated Bridge Coverage plan for retirees under the age of 65. In addition, the County provides a Medicare Supplement plan option for their Medicare eligible retirees. There were 85 retirees receiving health care benefits at December 31, 2012.

Funding Policy—Authorization for the County to pay a portion, or all, of retiree health insurance premiums was enacted by resolution of the Board of Commissioners or through union contracts, which are ratified by the Board of Commissioners. For an employee to be eligible for the County's

post-employment health plan they must qualify for retirement as per the County requirements. Retirees of the County under the age of 65 are provided with the same health care benefits as the active employees including health, prescription drug coverage, and dental insurance. The coverage continues until Medicare Eligibility Age. Based on the most recent actuarial valuation, the current theoretical premium based on the most recent three year average claims experience available equals \$838.09 per month. Retirees of the County who retired from active employment with the County prior to October 1, 2007, or who are actively employed and are the status of elected official as of October 1, 2007, are eligible to receive Medicare Supplemental Insurance Benefits for life. Based on the most recent actuarial valuation, the current theoretical premium based on the most recent three year average claims experience available equals \$656.39 per month.

The County's annual post-employment benefit ("OPEB") cost is calculated based on the annual required contributions ("ARC") of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year.

The table below shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation.

	Year ended December 31,	
	2012	2011
Annual required contribution	\$ 742,324	\$ 738,810
Interest on net OPEB obligation	50,961	37,887
Adjustment to annual required contribution	(94,461)	-
Annual OPEB costs (expense)	698,824	776,697
Contributions made	(546,154)	(515,207)
Increase in net OPEB obligation	152,670	261,490
Net OPEB obligation—beginning of year	1,019,229	757,739
Net OPEB obligation—end of year	<u>\$1,171,899</u>	<u>\$1,019,229</u>

Funding Status and Funding Progress—As of January 1, 2012, the most recent actuarial valuation date, the plan was not funded. Since there were no assets, the unfunded actuarial liability for benefits was \$6,934,382.

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 health care 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 the following page presents multiyear trend information about whether the actuarial value of plan assets, if any, is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The County's Schedule of Funding Progress is presented below:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Unfunded AAL ("UAAL")	Funded Ratio	Covered Payroll	Percentage of UAAL to Budget Covered Payroll
As of January 1, 2012	\$ -	\$ 6,934,382	\$ 6,934,382	- %	\$ 6,418,659	108.03%
As of January 1, 2010	\$ -	\$ 7,191,410	\$ 7,191,410	- %	\$ 7,197,146	99.92%

The County's Schedule of Contributions is shown below:

Year Ended December 31,	Annual Required Contribution	Contributions Made	Percentage Contributed
2012	\$ 742,324	\$ 546,154	73.6%
2011	738,810	515,207	69.7%
2010	738,810	640,737	86.7%

Actuarial Methods and Assumptions—Calculations are based on the types of benefits provided under the terms of the substantive plan, the plan as understood by the employer and the plan members, at the time of the valuation and on the pattern of cost sharing between the employee and plan members. Calculations reflect a long-term perspective, so methods and assumptions used include techniques that are designed to reduce short-term volatility. In the January 1, 2012 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a valuation and measurement date of December 31, 2012. The discount rate used was 5%. The RP-2000 Mortality Table for males and females was used for mortality rates. Upon retirement it is assumed that 100% of eligible employees will elect for post-employment health care benefits. The unfunded actuarial accrued liability is being amortized on a level dollar payment closed basis, and based on the most recent actuarial valuation, the remaining amortization period at December 31, 2012 was determined to be a weighted average of 14.75 years based on active employees versus retirees.

10. RISK MANAGEMENT

The County is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; injuries to employees and natural disasters. The County purchases commercial insurances to cover such potential risks. For the year ended December 31, 2012, general liability insurance is limited to \$1 million per occurrence, and an annual aggregate \$2 million. The automobile liability insurance is limited to \$1 million per accident. The excess liability insurance is limited to \$4 million per occurrence and in the aggregate. There have not been any settlements which have exceeded insurance coverage in the past three fiscal years.

The County is a party to litigation which has arisen in the ordinary course of its operation. The ultimate outcome of this litigation cannot be determined and no provisions for loss or gain, if any, that may result has been made in the accompanying financial statements. It is the opinion of the County that there will not be any material adverse effects on the County's financial statements as a result of this litigation.

The County has entered into an Administrative Services Agreement with Benefit Administrators, Inc. ("BAI"). As part of the agreement, BAI oversees the entire self insurance program for medical and

dental. The County also uses Highmark as its Third Party Administrator to prepare forms, and process claims. The responsibility of insuring claims however, lies with the County.

In order to insure against larger than expected health care losses associated with the self insurance plan, the County pays an additional amount for stop loss insurance. This agreement includes a "specific deductible" for each covered person. This deductible per covered person is \$135,000 per year. This will cover the individual up to a lifetime maximum specific benefit of \$1,865,000. Above this dollar amount Warren County will be liable for the claim. In return, the County pays a composite rate of \$42.54 per employee for the stop loss insurance. The plans coverage extends to both medical and prescription claims.

The County is liable for claims under \$135,000 per person for each of its 266 members covered under the plan. The County would also be liable for claims over \$1,865,000 over the course of each covered member's lifetime. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonable estimated. The County recorded \$164,197 of incurred but not recorded health claims for the year ended December 31, 2012.

11. SHORT-TERM DEBT

Short-term debt transactions of the County include a short-term tax anticipation note. There was no short-term debt outstanding at December 31, 2012.

The following summarizes the short-term debt activity for the fiscal year ended December 31, 2012:

Description	Issue Date	Maturity Date	Interest Rate	Balance 1/1/2012	Additions	Deductions	Balance 12/31/2012
Tax anticipation note	1/11/2012	12/30/3012	1.55%	\$ -	\$ 3,500,000	\$ 3,500,000	\$ -

12. LONG-TERM LIABILITIES

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Further, the unmatured principal of general long-term debt does not require current appropriation and expenditure of governmental fund financial resources.

The County's outstanding long-term liabilities include bonds payable, other post-employment benefits, and judgments and claims.

A summary of the County's long term debt at December 31, 2012 follows:

	Balance			Balance	
	Outstanding 1/1/2012	Additions	Reductions	Outstanding 12/31/2012	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 5,190,000	\$ -	\$ 490,000	\$ 4,700,000	\$ 470,000
OPEB obligation	1,019,229	698,824	546,154	1,171,899	-
Judgments and claims	265,145	2,388	103,336	164,197	-
Total governmental activities	<u>6,474,374</u>	<u>701,212</u>	<u>1,139,490</u>	<u>6,036,096</u>	<u>470,000</u>
Component unit:					
Rouse Estate	<u>3,899,351</u>	<u>4,550,000</u>	<u>4,268,049</u>	<u>4,181,302</u>	<u>548,134</u>
Total long-term debt	<u>\$ 10,373,725</u>	<u>\$ 5,251,212</u>	<u>\$ 5,407,539</u>	<u>\$ 10,217,398</u>	<u>\$ 1,018,134</u>

Annual principal and interest requirements to amortize debt outstanding as of December 31, 2012 are as follows:

Year ending December 31,	Governmental Activities		Rouse
	Principal	Interest	Estate
2013	\$ 470,000	\$ 84,973	\$ 548,134
2014	485,000	80,038	571,919
2015	490,000	73,975	579,201
2016	500,000	67,238	579,123
2017	1,030,000	59,113	56,749
Thereafter	<u>1,725,000</u>	<u>54,713</u>	<u>1,846,176</u>
	<u>\$ 4,700,000</u>	<u>\$ 420,049</u>	<u>\$ 4,181,302</u>

General Obligation Bonds—On September 21, 2011, the County issued \$5,190,000 in General Obligation Bonds, Series 2011A, to refund its General Obligation Bonds, Series 2005, with an interest range of 0.65% to 2.40%, and Series 2003, with an interest range of 1.30% to 4.43%. The outstanding balance of the Series 2011A bonds at December 31, 2012 is \$4,700,000. The net proceeds of these refunding bonds (after deductions for net issuance costs including underwriters' discount) were placed in an irrevocable trust fund and used to redeem, at 100% of the principal amount thereof, together with interest accrued thereon, on October 20, 2011, the 2003 and 2005 Bonds then outstanding. As a result, the original bonds are fully refunded and the liability for those bonds has been removed from the financial statements.

Other Post-Employment Benefits—As explained in Note 9, the County provides medical, dental and prescription drug insurance benefits for retirees while contributing a portion of the expenses. Such post-employment benefits are an included value in the exchange of salaries and benefits for services rendered. An employee's total compensation package includes not only the salaries and benefits received during service, but all compensation and benefits received for their services during post-employment. The County's annual post-employment benefit ("OPEB") cost is calculated based on the annual required contributions of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The estimated long-term OPEB liability is estimated to be \$1,171,899 at December 31, 2012.

Judgments and Claims—As explained in Note 10, the County is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; injuries to employees and natural disasters. The County purchases commercial insurances to cover such potential risks. There have not been any settlements which have exceeded insurance coverage in the past three fiscal years. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonable estimated. The County recorded \$164,197 of incurred but not recorded claims for the year ended December 31, 2012.

Rouse Estate-Component Unit—The County issued \$ 2,550,000 in General Obligation Bonds, Series 2011B, on behalf of the Estate. The outstanding balance of the Series 2011B bonds at December 31, 2012 is \$2,035,000. The proceeds from the sale of the bonds were used to refund the outstanding General Obligation Bonds, Series B of 2002. The bonds are secured by bond insurance and the County of Warren, Pennsylvania’s full faith, credit, and taxing power. Bond issue costs in connection with the bonds amounted to \$ 31,838. The issue costs are being amortized over the lives of the bonds.

The Estate was issued a \$ 4,450,000 Tax-Exempt Revenue Note, Series 2012 by the Warren County Industrial Development Authority. The revenue note was used to refinance the 2006 note payable for The Suites at Rouse and Rouse Annex and for construction and renovation projects at the Rouse-Warren County Home and The Suites at Rouse. The portion of the loan that qualifies as a construction loan is in the process of being drawn down as of December 31, 2012. The revenue note is secured by the property of the Rouse Estate along with assignment of rents and leases. Debt issuance costs in connection with the bonds amounted to \$ 43,536. The issue costs are being amortized over the life of the revenue note.

13. NET POSITION AND FUND BALANCE

The government-wide financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted. A reconciliation is provided below.

- ◆ **Net Investment in Capital Assets**—This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construct or improvement of these assets reduce the balance in this category. The following presents a reconciliation of capital assets (net of accumulated depreciation), net of total indebtedness to net investment in capital assets:

Capital assets, net of accumulated depreciation		\$ 6,873,956
Less:		
Bonds outstanding	\$ (4,700,000)	
Deferred charge on refunding	155,354	(4,544,646)
Net investment in capital assets		\$ 2,329,310

- ◆ **Restricted Net Position**—This category presents external restriction imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- ◆ **Unrestricted Net Position**—This category represents net position of the County not restricted for any project or other purpose.

In the fund financial statements, nonspendable amounts represent net current financial resources that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Nonspendable fund balance maintained by the County at December 31, 2012 include:

- ◆ **Prepaid Items**—\$117,267 representing amounts prepaid to vendors that are applicable to future accounting periods. The County must limit nonspendable fund balance for prepaid items to the amount of fund balance otherwise available and unassigned.

In the fund financial statements, restrictions represent a portion of fund balance that has been legally segregated for a specific use or is not able to be appropriated for expenditure by the County at December 31, 2012, and include:

Fund balance restricted for:

Warren E-911	\$ 498,933
Extinguishment of debt	<u>1,631,218</u>
	<u>\$ 2,130,151</u>

- ◆ **Restricted for Warren E-911**—Represents funds set aside for costs associated with the operations of the County's E-911 Fund.
- ◆ **Restricted for Extinguishment of Debt**—Represents resources that have been legally restricted for principal and interest payments that will be made in future periods.

In the fund financial statements, assignments are not legally required segregations but are segregated for a specific purpose by the County at December 31, 2012 and include:

Fund balance assigned for:

Other special revenue funds	\$ 775,721
Assigned for health insurance	<u>733,612</u>
	<u>\$ 1,509,333</u>

- ◆ **Assigned for Other Special Revenue Funds**—Representing fund balance within the special revenue funds that is assigned for a specific purpose.
- ◆ **Assigned for Health Insurance**—Representing available fund balance for potential future payment of health insurance costs.

14. INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables are short term in nature and exist because of temporary advances or payments made on behalf of other funds. The composition of interfund balances as of December 31, 2012 is as follows:

Fund	Interfund Receivables	Interfund Payables
General Fund	\$ -	\$ 95,290
Debt Service Fund	97,450	-
Other governmental funds	<u>-</u>	<u>2,160</u>
Total	<u>\$ 97,450</u>	<u>\$ 97,450</u>

The outstanding balances between funds result from payments made on behalf of other funds or temporary advances. All of these balances are expected to be collected/paid within the subsequent year.

The County made the following transfers during 2012:

Fund	Transfers In	Transfers Out
General Fund	\$ 2,946	\$ 150,287
Other governmental funds	150,287	2,946
Total	<u>\$ 153,233</u>	<u>\$ 153,233</u>

15. AGENCY FUND

An agency fund exists for temporary deposit funds. The following is a summary of assets and liabilities for the fiscal year ended December 31, 2012.

	Balance 12/31/2012	Balance 12/31/2011
Assets:		
Cash and cash equivalents in escrow	<u>\$ 914,798</u>	<u>\$ 703,670</u>
Liabilities:		
Escrow liability	<u>\$ 914,798</u>	<u>\$ 703,670</u>

16. LABOR RELATIONS

County employees are represented by two bargaining units, with the balance governed by County rules and regulations. The SEIU and the AFSCME Sheriff and Jail contracts expire December 31, 2013.

17. RELATED PARTY TRANSACTIONS

The County provided the Warren Library Association an allocation of \$230,000 which was recorded as a culture and recreation expenditure.

18. CONTINGENCIES

Litigation—Various legal actions are pending against the County. The outcome of these matters is not presently determinable but, in the opinion of management, the ultimate liability will not have a material adverse effect on the financial condition or results of operation of the County.

Grants—The County receives financial assistance from numerous federal and state agencies. The receipt of such assistance generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed expenditures resulting from such audits could become a liability of the County. Based on prior experience, the County expects any such amounts to be immaterial.

19. SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 8, 2013, which is the date the financial statements are available for issuance, and have determined there are no subsequent events, except as noted below, that require disclosure under generally accepted accounting principles.

On January 9, 2013, the County issued \$3,500,000 of tax anticipation notes with a net interest rate of 1.40 percent. These notes mature on December 31, 2013.

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COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS

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COUNTY OF WARREN, PENNSYLVANIA
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2012

	<u>Special Revenue</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Other Governmental</u>	<u>Special Purpose</u>	
ASSETS			
Cash and cash equivalents	\$ 594,985	\$ 135,092	\$ 730,077
Restricted cash	450,717	-	450,717
Accounts receivable	99,011	6,026	105,037
Total assets	<u>\$ 1,144,713</u>	<u>\$ 141,118</u>	<u>\$ 1,285,831</u>
LIABILITIES			
Accounts payable	\$ 9,017	\$ -	\$ 9,017
Due to other funds	2,160	-	2,160
Total liabilities	<u>11,177</u>	<u>-</u>	<u>11,177</u>
FUND BALANCES			
Restricted	498,933	-	498,933
Assigned	634,603	141,118	775,721
Total fund balances	<u>1,133,536</u>	<u>141,118</u>	<u>1,274,654</u>
Total liabilities and fund balances	<u>\$ 1,144,713</u>	<u>\$ 141,118</u>	<u>\$ 1,285,831</u>

COUNTY OF WARREN, PENNSYLVANIA
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended December 31, 2012

	<u>Special Revenue</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Other Governmental</u>	<u>Special Purpose</u>	
REVENUES			
Intergovernmental	\$ 810,439	\$ 197,952	\$ 1,008,391
Charges for services	590,234	2,068	592,302
Interest/investment income	3,989	46	4,035
Miscellaneous	<u>1,462</u>	<u>10,465</u>	<u>11,927</u>
Total revenues	<u>1,406,124</u>	<u>210,531</u>	<u>1,616,655</u>
EXPENDITURES			
Current:			
General government	450,320	-	450,320
Public safety	1,047,798	2,261	1,050,059
Public works	190,052	197,952	388,004
Conservation and development	-	52,828	52,828
Miscellaneous	<u>28,049</u>	<u>-</u>	<u>28,049</u>
Total expenditures	<u>1,716,219</u>	<u>253,041</u>	<u>1,969,260</u>
(Deficiency) of revenues (under) expenditures	<u>(310,095)</u>	<u>(42,510)</u>	<u>(352,605)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	118,282	32,005	150,287
Transfers out	<u>(2,946)</u>	<u>-</u>	<u>(2,946)</u>
Total other financing sources (uses)	<u>115,336</u>	<u>32,005</u>	<u>147,341</u>
Net change in fund balances	(194,759)	(10,505)	(205,264)
Fund balances—beginning	<u>1,328,295</u>	<u>151,623</u>	<u>1,479,918</u>
Fund balances—ending	<u>\$ 1,133,536</u>	<u>\$ 141,118</u>	<u>\$ 1,274,654</u>

COUNTY OF WARREN, PENNSYLVANIA
Combining Balance Sheet
Special Revenue (Other Governmental) Funds
December 31, 2012

	Liquid Fuels	DUI Program	Prothonotary Automation	Records Improvement	Small Communities	Hazardous Materials	Warren E-911	Winterfest	Domestic Relations	Orphan Court	Total
ASSETS											
Cash and cash equivalents	\$ 41,256	\$ 26,307	\$ 23,177	\$ 181,439	\$ 2,807	\$ 35,166	\$ -	\$ -	\$ 273,167	\$ 11,666	\$ 594,985
Restricted cash	-	-	-	-	-	-	450,717	-	-	-	450,717
Accounts receivable	-	-	823	1,568	-	-	52,779	-	43,741	-	99,011
Total assets	\$ 41,256	\$ 26,307	\$ 24,000	\$ 183,107	\$ 2,807	\$ 35,166	\$ 503,496	\$ -	\$ 316,908	\$ 11,666	\$ 1,144,713
LIABILITIES											
Accounts payable	\$ -	\$ 1,218	\$ -	\$ -	\$ -	\$ 3,236	\$ 4,563	\$ -	\$ -	\$ -	\$ 9,017
Due to other funds	-	-	2,117	43	-	-	-	-	-	-	2,160
Total liabilities	-	1,218	2,117	43	-	3,236	4,563	-	-	-	11,177
FUND BALANCES											
Restricted	-	-	-	-	-	-	498,933	-	-	-	498,933
Assigned	41,256	25,089	21,883	183,064	2,807	31,930	-	-	316,908	11,666	634,603
Total fund balances	41,256	25,089	21,883	183,064	2,807	31,930	498,933	-	316,908	11,666	1,133,536
Total liabilities and fund balances	\$ 41,256	\$ 26,307	\$ 24,000	\$ 183,107	\$ 2,807	\$ 35,166	\$ 503,496	\$ -	\$ 316,908	\$ 11,666	\$ 1,144,713

COUNTY OF WARREN, PENNSYLVANIA
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Special Revenue (Other Governmental) Funds
Year Ended December 31, 2012

	Liquid Fuels	DUI Program	Prothonotary Automation	Records Improvement	Small Communities	Hazardous Materials	Warren E-911	Winterfest	Domestic Relations	Orphan Court	Total
REVENUES											
Intergovernmental	\$ 178,102	\$ -	-	-	\$ 185,192	\$ 11,610	\$ 181,619	\$ -	\$ 253,916	\$ -	\$ 810,439
Charges for services	-	118,656	-	-	-	59,686	336,792	-	75,100	-	590,234
Interest/investment income	17	7	220	73	-	7	3,205	-	-	460	3,989
Miscellaneous	-	-	-	-	-	1,462	-	-	-	-	1,462
Total revenues	178,119	118,663	220	73	185,192	72,765	521,616	-	329,016	460	1,406,124
EXPENDITURES											
Current:											
General government	-	-	12,940	-	-	-	-	-	437,380	-	450,320
Public safety	-	138,054	-	-	195,192	44,385	670,167	-	-	-	1,047,798
Public works	190,052	-	-	-	-	-	-	-	-	-	190,052
Miscellaneous	-	-	-	1,845	-	26,204	-	-	-	-	28,049
Total expenditures	190,052	138,054	12,940	1,845	195,192	70,589	670,167	-	437,380	-	1,716,219
Excess (deficiency) of revenues over expenditures	(11,933)	(19,391)	(12,720)	(1,772)	(10,000)	2,176	(148,551)	-	(108,364)	460	(310,095)
OTHER FINANCING SOURCES (USES)											
Transfers in	-	5,879	9,717	23,656	-	-	-	-	79,030	-	118,282
Transfers out	-	-	-	-	-	-	-	(2,946)	-	-	(2,946)
Total other financing sources (uses)	-	5,879	9,717	23,656	-	-	-	(2,946)	79,030	-	115,336
Net change in fund balances	(11,933)	(13,512)	(3,003)	21,884	(10,000)	2,176	(148,551)	(2,946)	(29,334)	460	(194,759)
Fund balances—beginning	53,189	38,601	24,886	161,180	12,807	29,754	647,484	2,946	346,242	11,206	1,328,295
Fund balances—ending	\$ 41,256	\$ 25,089	\$ 21,883	\$ 183,064	\$ 2,807	\$ 31,930	\$ 498,933	\$ -	\$ 316,908	\$ 11,666	\$ 1,133,536

COUNTY OF WARREN, PENNSYLVANIA
Combining Balance Sheet
Special Revenue (Special Purpose) Funds
December 31, 2012

	<u>Housing Trust</u>	<u>Juvenile Probation</u>	<u>Northwest Home Rehab</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 115,111	\$ 9,461	\$ 10,520	\$ 135,092
Accounts receivable	6,026	-	-	6,026
Total assets	<u>121,137</u>	<u>9,461</u>	<u>10,520</u>	<u>141,118</u>
FUND BALANCES				
Assigned	\$ 121,137	\$ 9,461	\$ 10,520	\$ 141,118
Total fund balances	<u>121,137</u>	<u>9,461</u>	<u>10,520</u>	<u>141,118</u>
Total fund balances	<u>\$ 121,137</u>	<u>\$ 9,461</u>	<u>\$ 10,520</u>	<u>\$ 141,118</u>

COUNTY OF WARREN, PENNSYLVANIA
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Special Revenue (Special Purpose) Funds
Year Ended December 31, 2012

	<u>Housing Trust</u>	<u>Juvenile Probation</u>	<u>Northwest Home Rehab</u>	<u>Total</u>
REVENUES				
Intergovernmental	\$ -	\$ -	\$ 197,952	\$ 197,952
Charges for services	-	2,068	-	2,068
Interest/investment income	43	2	1	46
Miscellaneous	-	-	10,465	10,465
Total revenues	<u>43</u>	<u>2,070</u>	<u>208,418</u>	<u>210,531</u>
EXPENDITURES				
Current:				
Public safety	-	2,261	-	2,261
Public works	-	-	197,952	197,952
Conservation and development	52,828	-	-	52,828
Total expenditures	<u>52,828</u>	<u>2,261</u>	<u>197,952</u>	<u>253,041</u>
Excess (deficiency) of revenues over expenditures	<u>(52,785)</u>	<u>(191)</u>	<u>10,466</u>	<u>(42,510)</u>
OTHER FINANCING SOURCES				
Transfers in	32,005	-	-	32,005
Total other financing sources	<u>32,005</u>	<u>-</u>	<u>-</u>	<u>32,005</u>
Net change in fund balance	(20,780)	(191)	10,466	(10,505)
Fund balances—beginning	141,917	9,652	54	151,623
Fund balances—ending	<u>\$ 121,137</u>	<u>\$ 9,461</u>	<u>\$ 10,520</u>	<u>\$ 141,118</u>

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FEDERAL AWARDS

COUNTY OF WARREN, PENNSYLVANIA
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2012

Grantor (Federal/Pass-Through)/Program Title	Pass-Through Grant Title	Federal CFDA Number (1)	Disbursements (2)
U.S. DEPARTMENT OF AGRICULTURE:			
Pass-Through, Pennsylvania Department of Agriculture:			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (5)	Food Stamp Program	10.561	\$ 10,176
The Emergency Food Assistance Program (Administrative Costs)	Title II Reimbursement for Administrative Expenditures	10.569	5,002
Pass-Through, Pennsylvania Department of Conservation and Natural Resources (4):			
Grants to State	County Share of National Forest	10.665	<u>849,807</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>864,985</u>
U.S. DEPARTMENT OF DEFENSE:			
Pass-Through, Bureau of Land Management:			
Payments in Lieu of Real Estate Taxes		12.112	<u>65,463</u>
TOTAL U.S. DEPARTMENT OF DEFENSE			<u>65,463</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (6):			
Pass-Through, Pennsylvania Department of Community and Economic Development and the County of Warren:			
Community Development Block Grant	Community Development Block Grant	14.228	185,192
Emergency Services Grant		14.231	28,346
Office of Community Planning & Development	Home Investment Partnership Program	14.239	197,951
Homeless Prevention & Rapid Re-Housing Program-Recovery		14.262	<u>31,261</u>
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>442,750</u>
U.S. DEPARTMENT OF JUSTICE:			
Pass-Through, Pennsylvania Commission on Crime and Delinquency:			
Juvenile Accountability Incentive Block Grant	Warren Area Student Union	16.523	10,476
Edward Byrne Memorial Justice Assistance Grant	Criminal Justice Advisory Grant	16.738	1,500
Edward Byrne Memorial Justice Assistance Grant-Recovery	Criminal Justice Advisory Grant	16.803	<u>1,545</u>
TOTAL U.S. DEPARTMENT OF JUSTICE			<u>13,521</u>
U.S. DEPARTMENT OF TRANSPORTATION (7):			
Pass-Through, Pennsylvania Department of Transportation:			
Highway Planning and Construction	Local NBIS Bridge Inspection	20.205	26,253
State and Community Highway Safety	Highway Safety Project Grant	20.600	<u>21,679</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			<u>47,932</u>

(continued)

COUNTY OF WARREN, PENNSYLVANIA
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2012

(concluded)

Grantor (Federal/Pass-Through)/Program Title	Pass-Through Grant Title	Federal CFDA Number (1)	Disbursements (2)
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-Through, Pennsylvania Department of Public Welfare:			
Guardian Assistance (3)	Title IV-E	93.090	36,839
Temporary Assistance for Needy Families (3) (5)	TANF	93.558	34,775
Child Support Enforcement Program	Domestic Relations Program Title IV-D	93.563	253,663
Child Care & Development Block Grant (5)	Subsidized Child Day Care	93.575	502,006
Child Care Mandatory & Matching Funds (5)	Subsidized Child Day Care	93.596	184,012
Child Welfare Services (3)	State Grants (Title IV-B, Part 1)	93.645	52,726
Foster Care-Recovery (3)	Title IV-E	93.658	468,670
Adoption Assistance (3)	Title IV-E	93.659	127,700
Social Services Block Grant (3) (5)	Title XX	93.667	188,209
Independent Living (3)	Title IV-E	93.674	18,415
Child Care & Development Block Grant-Recovery (5)	Subsidized Child Day Care	93.713	33,919
Medical Assistance (3)	Medicaid	93.778	210,085
Healthcare and Other Facilities	Tidioute/WGH Clinic	93.887	90,912
Block Grants for Prevention and Treatment of Substance Abuse (3)		93.959	<u>229,676</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>2,431,607</u>
U.S. DEPARTMENT OF HOMELAND SECURITY:			
Pass-Through, Pennsylvania Emergency Management Agency:			
Emergency Management Performance Grant	EMPG Program	97.042	<u>84,113</u>
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>84,113</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE EXPENDED			<u>\$ 3,950,371</u>

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this statement.

COUNTY OF WARREN, PENNSYLVANIA
Notes to the Schedule of Expenditures of Federal Awards
Year Ended December 31, 2012

- (1) Source: Update to the 2012 Catalog of Federal Domestic Assistance.
- (2) Prepared on the modified accrual basis of accounting.
- (3) Amounts are passed through the County to Warren Department of Human Services and Northwest Human Development, Inc. These entities have submitted a separate report of audited financial statements and single audit reports for the fiscal year ended June 30, 2012 to the County.
- (4) Amounts are passed through to several townships and the Warren County School District. The Warren County School District submitted a separate report of audited financial statements and single audit reports for the fiscal year ended June 30, 2012 to the County.
- (5) Amounts are passed through the County to the Economic Opportunity Council. This entity has submitted separate audited financial statements and single audit reports for the fiscal year ended June 30, 2012 to the County. Management has allocated the funds for Subsidized Child Day Care as follows:

Program Title	CFDA Number	Amount
Child Care and Development Block Grant	93.575	\$ 502,006
Child Care Mandatory & Matching Funds of the Child Care and Development Fund	93.596	184,012
Child Care and Development Block Grant	93.713	33,919
Total		\$ 719,937

- (6) Receipts equaled disbursements for all U.S. Department of Housing and Urban Development programs.
- (7) Amounts are passed through the County to the Warren County Transit Authority. The Warren County Transit Authority has submitted separate audited financial statements for the year ended June 30, 2012 to the County.
- (8) Basis of presentation: The accompanying schedule of expenditures of federal awards includes the federal grant activity of County of Warren, Pennsylvania and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of basic financial statements.

- (9) Of the federal expenditures presented in the schedule, County of Warren, Pennsylvania provided federal awards to subrecipients as follows:

Program Title	CFDA Number	Amount
Food Stamp Program	10.561	\$ 10,176
The Emergency Food Assistance Program	10.569	5,002
Grants to State	10.665	849,807
Guardian Assistance	93.090	36,839
Temporary Assistance for Needy Families	93.558	34,775
Child Care and Development Block Grant	93.575	502,006
Child Care Mandatory & Matching Funds	93.596	184,012
Child Welfare Services	93.645	17,258
Foster Care-Recovery	93.658	468,670
Adoption Assistance	93.659	127,700
Social Services Block Grant	93.667	84,755
Independent Living	93.674	18,415
Child Care and Development Block Grant-Recovery	93.713	33,919
Medical Assistance Program	93.778	27,113
Healthcare and Other Facilities	93.887	90,912
Block Grants for Prevention and Treatment of Substance Abuse	93.959	229,676

- (10) A reconciliation to the financial statements is available from the County's Fiscal Department.

Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of County Commissioners
County of Warren, Pennsylvania:

We have audited 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, the financial statements of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Warren, Pennsylvania (the "County") as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated August 27, 2013 (which report refers to other auditors and contains an explanatory paragraph relating to the financial statements of the County's component unit, the Warren Library Association, having been prepared on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America). Our report includes a reference to other auditors who audited the financial statements of the Warren Library Association and Rouse Estate, as described in our report on the County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Warren Library Association and Rouse Estate were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

 David E. Macchi LLP

August 27, 2013

Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of County Commissioners
County of Warren, Pennsylvania:

Report on Compliance for Each Major Federal Program

We have audited the County of Warren, Pennsylvania's, (the "County") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2012. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the County'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance.

Opinion on Each Major Federal Program

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 the County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

 Dush & Malhi LLP

August 27, 2013

COUNTY OF WARREN, PENNSYLVANIA
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2012

Part I. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditors' report issued:

Unmodified*

* (which report refers to other auditors and contains an explanatory paragraph relating to the financial statements of the County's component unit, the Warren Library Association, having been prepared on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America).

Internal control over financial reporting:

- | | | |
|---|-----------|---|
| 1. Material weakness(es) identified? | _____ Yes | _____ <input checked="" type="checkbox"/> No |
| 2. Significant deficiency(ies) identified not considered to be material weaknesses? | _____ Yes | _____ <input checked="" type="checkbox"/> None reported |
| 3. Noncompliance material to financial statements noted? | _____ Yes | _____ <input checked="" type="checkbox"/> No |

Federal Awards:

Internal control over major programs:

- | | | |
|---|-----------|---|
| 4. Material weakness(es) identified? | _____ Yes | _____ <input checked="" type="checkbox"/> No |
| 5. Significant deficiency(ies) identified not considered to be material weakness(es)? | _____ Yes | _____ <input checked="" type="checkbox"/> None reported |

Type of auditors' report issued on compliance for major programs:

Unmodified

- | | | |
|---|-----------|--|
| 6. Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 (section .510(a))? | _____ Yes | _____ <input checked="" type="checkbox"/> No |
|---|-----------|--|

7. The County's major programs were:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Grants to States	10.665
Homeless Prevention and Rapid Re-Housing Program (ARRA)	14.262
Foster Care (ARRA)	93.658

- | | | |
|---|---|-------------------|
| 8. Dollar threshold used to distinguish between Type A and Type B programs? | | \$ <u>300,000</u> |
| 9. Auditee qualified as low-risk auditee? | _____ <input checked="" type="checkbox"/> Yes | _____ No |

Part II. FINANCIAL STATEMENT FINDINGS SECTION

No matters were reported.

Part III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

No matters were reported.

COUNTY OF WARREN, PENNSYLVANIA
Schedule of Prior Year Federal Award Findings
Year Ended December 31, 2012
(Follow Up of December 31, 2011 Findings)

No matters were reported for the year ended December 31, 2011.

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